PROMOTING THE AMERICAN DREAM OF HOMEOWNERSHIP THROUGH DOWNPAYMENT ASSISTANCE

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

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PROMOTING THE AMERICAN DREAM OF HOMEOWNERSHIP THROUGH DOWNPAYMENT ASSISTANCE

Tuesday, April 8, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:09 p.m., in Room 2128, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Miller, Tiberi, Harris, Renzi, Waters, Velazquez, Carson, Lee, Capuano, Watt, Clay, Frank (ex officio), Miller, Scott and Davis.

Chairman NEY. [Presiding.] The subcommittee will come to order.

This is a hearing on the American dream downpayment initiative. I want to welcome Secretary Martinez. Many times he has been to the Hill and we appreciate all his ideas and work on a lot of important issues to Americans.

Today, we are here to examine the president's American dream downpayment initiative, which is designed to assist thousands of low-income families to realize the American dream of homeownership. The benefits of homeownership for families, communities and the nation as a whole, as all of you know, are profound. Homeownership has been the single biggest creator of wealth in our nation.

When the stock markets were declining, home values were rising. When citizens own homes, they establish roots and therefore have a greater stake in their communities, growth, safety and development. As I said today at the press conference, homeownership is America. It is the vital part of American life. While the national homeownership rate has steadily risen—it is at 68 percent, and that is tremendous—there are sections of population for whom homeownership remains unattainable. That is something that we cannot tolerate as a country or society. In fact, the homeownership rate for African Americans and Hispanics is less than 50 percent.

Clearly, more can and should be done to help all of our citizens realize the dream of home ownership. The president has committed to this nation to create 5.5 million new minority homeowners by the end of the decade. In June, 2001, President Bush proposed establishing the American dream downpayment fund, and it is again

one of the cornerstones of the Administration's homeownership agenda in the 2004 budget.

The Millennial Housing Commission report recognizes the lack of savings and the inability to afford the downpayment and closing costs on a house as one of the biggest barriers to home ownership. A lot of people can struggle and they can go out to work and the families work, and they can make the payments, but the downpayment is truly a dilemma. The Millennial Housing Commission also underscored the importance of homeownership rates to a growing economy. On page 21 of the report, the commission states, "lagging minority homeownership rates are a serious concern. Minority households are expected to account for two-thirds of household growth over the coming decade. Improving the ability of such households to make the transition to homeownership will be an especially important test of the nation's capacity to create economic opportunity for minorities and immigrants, and to build strong, stable communities."

The American dream downpayment fund will provide $200 million in grants to help homebuyers with the downpayment and closing costs. This has the potential of assisting 40,000 families annually to achieve the dream of homeownership. The initiative would make available subsidy assistance averaging $5,000 per family to help low-income, first-time homebuying families. To be eligible, the recipients' annual income may not exceed 80 percent of the area median income.

I really want to commend the president and Secretary Martinez for pushing this great initiative. It is a good thing to do, as I mentioned, economically, but it is the right thing to do for the citizens of this country, our constituents, and people that have immigrated into the United States, to help them achieve a piece of the American dream. I also want to commend Congressman Rogers in the 107th Congress. I was a co-author with him. I want to note Congresswoman Katherine Harris from Florida, Congressman Davis, for their leadership on this important issue and for introducing H.R. 1276, the American Dream Downpayment Act.

Again, we are fortunate to have the Secretary with us. Without objection, I would also like to include the testimony of the National Association of Realtors, who are not with us today, in the record. Hearing no objection, it will be part of the record. Also without objection, the statements of all members will be included in the record. Hearing no objections, they will be included in the record.At this time, I would turn to my colleague from Massachusetts, Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I particularly appreciate your making an exception to the normal rule and appearing here before a subcommittee. We may call on you from time to time in that regard. We have big subcommittees on this committee. So we are entitled.

Secretary MARTINEZ. Happy to be here, sir.

Mr. FRANK. I want to express my support for the notion that we should make some new money available for home ownership. Obviously, our laws favor home ownership. When low-income individuals and low-income minority group members are having difficulty buying homes, they are disadvantaged even vis-a-vis renting, be-

cause of the way that works. I am particularly pleased, and I had a chance to speak to the main sponsor, the gentlewoman from Florida, and I think we are in agreement that this is additional money. I raise that because in the last Congress, there was a proposal that came forward that would have earmarked existing HOME money for this purpose. That did not seem to many of us a good idea. The HOME program is a good program and we did not want to interfere and the Mayors objected to that.

My understanding is we are talking now about an additional authorization of funding. I think that would get virtually unanimous support. I hope that we will stick with it. As a matter of fact, as I recall in the housing bill that cleared the committee last year, there was an authorization of $200 million in new money for home ownership. That housing bill disappeared into the ether, so it never got anywhere, but I would look forward to doing this. So I just want to make that explicit, I believe it is something about which we are all in agreement. This I think should go very quickly.

But Mr. Secretary, I do want to take advantage of your being here to raise an issue which was just called to my attention by the new Governor of Massachusetts. I do not expect you to have an off the top of the head answer, but I ask you to look at this. We literally a couple of hours ago received a kind of crisis phone call from Mr. Micciche, who is the Director of federal relations, about instructions that were given regarding Section 8. Now, Congress adopted in the appropriations bill this year what I believe are unduly restrictive language about Section 8 dealing with over-leasing. The problem is that, as you have pointed out, that you do not want Section 8 going under-utilized, and you have said if people do not utilize them, they are going to lose them.

The housing authorities, and this is my Republican Governor's people, are telling us that you cannot always hit 100 percent right on the mark. So if sometimes you are a little under and sometimes you go a little over to compensate, you average out. But language we put into the appropriations bill says you can never go over. Well, since you rarely can hit 100 percent, this means you can go under and not over, but that also then means that you lose out because you will always average out to less, and we are going to have a declining cycle here. Now, I realize that part of the problem was the legislation, which some of us tried to get changed. But it does not seem to me that the legislation in the appropriations bill—not done by the authorizing committee—requires this balance to be so tightly done month by month. The problem, as I understand it from my Governor, is that HUD is now telling them that we are going to take this balance month by month, and if you over-lease at all in one month, then you are frozen.

They, at least it seems to me, ought to be given the ability to do this on a yearly basis. That would also give us the time, frankly, to revisit this in the appropriations bill, because I think we have put them in an impossible bind. That is, as I said, they can never over-lease to make up for under-leasing, and since you can never hit 100 percent exactly, we are going to have a problem. So I am going to be sending you a letter, and I hope you can look into this, to urge you to get a little more flexibility here. Let's not do this month by month, and let's see if we can work with you and with

the Governors, because I am told other States are having the same sort of situation, to see if we can get some flexibility into these appropriations bill.

As I said, I have had this for a couple of hours. You have just had it for a couple of minutes. But I do not think Governor Romney is an alarmist on this and I do not think he is interested in wasting money. I think they have pointed to a problem which many of us foresaw with the appropriations bill. We opposed that language and we have been unfortunately proven righter than we wanted to be, sooner than we wanted to be. So we will be looking to work with you on that.

Secretary MARTINEZ. Thank you. Yes, I will reply to you.

Chairman NEY. Thank you.

The gentlelady from Florida.

Ms. HARRIS. Thank you, Mr. Chairman. This is an exciting time for all of us. I want to express my appreciation to you, Mr. Chairman, for your enthusiasm in hosting this hearing today. As well, I want to thank all the members of the panel for appearing, particularly my dear friend from Florida, Secretary Martinez. I also want to thank Congressman Mike Rogers for his sponsorship of the bill and the great idea last year, as well as my colleague, the gentleman from Massachusetts for his support. I am really enthusiastic about the opportunities that this bill is going to provide.

Today marks an important milestone in our nation's efforts to address the moral imperative of extending affordable quality housing opportunities to every American. H.R. 1276, the American Dream Downpayment Act, implements President Bush's visionary plan to extend the dream of home ownership to tens of thousands of low-income families and individuals across our nation. I have consulted with housing advocates throughout my district, and have heard that a great number of low-income Americans could afford that monthly mortgage payment, yet cannot overcome that initial impediment, that obstacle of the downpayment and closing costs that are associated with the standard residential loans.

This legislation creates new funding authority to remove barriers by annually providing an estimated 40,000 low-income families and individuals with an average subsidy of $5,000 to assist their buying their first home. I understand that there are concerns that exist regarding whether the formula that HUD presently has proposed for distributing grants adequately reflects the jurisdiction's past efforts in promoting home ownership. I share those concerns and I anticipate that our witnesses will help us address them here today.

Let us not, however, permit issues that we can address through the legislative process to divert our attention from the extraordinary potential that this bill creates in terms of the opportunity to strengthen our communities in a nation that enjoys an unprecedented level of wealth and material comfort, that is unprecedented in human history. This state of affairs is unconscionable. We can no longer tolerate circumstances in which a steep entry fee stands between thousands of low-income Americans and the dignity, stability and economic empowerment of home ownership.

I look forward to our consideration of this critical legislation today.

Thank you, Mr. Chairman.

Chairman NEY. I thank the gentlelady, and our ranking member. The gentlelady from California.

Ms. WATERS. Thank you very much, Mr. Chairman. I am delighted to be here and to have you hold this meeting. I thank the Secretary for being here.

As you know, we held a hearing on the faith-based initiative, and they failed to invite you. So we were looking forward to you coming because we thought we would have some opportunities first to just let you know how strongly some of us feel about the civil rights concerns of the faith-based initiative and the fact that we do not want to see our religious organizations basically discriminate in hiring against anybody in a program such as it has been designed.

Secondly, we are concerned about churches and religious organizations who already have 501(c)(3)s who can do this. They do not need another initiative. They can use their 501(c)(3)s, but they will be competing, for example, with CDBG money with some of the 501(c)(3)s that are already out there struggling and competing. So we just want you to know about our concerns and to take a look at all of that, and be sure that you pay attention to ways by which you can provide some technical assistance to the organizations that will help them become competitive, and then urge the Administration to put some more money in so that we will not all be competing for the same bit of CDBG-type dollars with new entities that we empower through technical assistance. So those are our concerns.

Having said that, you are here today also to talk about this downpayment home ownership program, et cetera, et cetera. As you know, you may have heard, I think that our financial institutions should have more products. One of those products should be no downpayment or very little downpayment. We have not done enough work. We have brought down downpayments in any number of ways, and we have programs with low downpayment—3 percent, 2 percent—rather than 10 percent. We have that already, and I think we ought to be encouraging our private institutions, our financial institutions to have more products where you have no downpayments.

I am worried about this idea before us today because again there is no new money. We already have the HOME program, I believe it is, where the cities are using some of their dollars to reduce the cost of the downpayment, but they have flexibility in the use of these dollars, so that they can use it any number of ways. They have the handy-person program to fix up the homes. They have other kinds of things that they do. We do not want to limit that flexibility and we want to encourage them to keep on doing what they are doing. Again, if you want a program that is basically going to be a duplication of something that is already going on, you have got to get more money and not rob from Peter to pay Paul.

So I welcome your comments and your thoughts about it. I am delighted that you are here. I know that you have got your hands full. We do not make it any easier for you, but it comes with the territory. I thank you for being here today.

Secretary MARTINEZ. Thank you.

Ms. WATERS. You are welcome.

Chairman NEY. I want to thank the gentlelady, the ranking member, for her comments.

The gentleman from Arizona.

Mr. RENZI. Thank you, Mr. Chairman. Good to see you again, Mr. Secretary.

I want to compliment my colleague from Florida for helping develop this legislation which I think is a major step in reaching so many of the low-income prospective homebuyers and allowing Americans to achieve that American dream and find security in their neighborhoods. You look at the root of our society, it is about family and homes and community first, and then we build up from there and becomes states and a nation. So thank you for going to the root of what makes us a nation.

I want to thank you for coming to Arizona. You came at a time when many of the people in our community down in the Casa Grande area, many of our Hispanics, our native Americans were worried about their own ability to achieve and get loans. I wanted to ask you, would you be able to see or foresee in the future through this work and similar legislation, if we are going to be able to have the downpayment apply to the old FHA 235 program, which, you know, when I was just out of college with a bunch of kids, I got an FHA 235 program; bought a home. I eventually borrowed against the home and started my first business and eventually employed several Arizonans. So it is through home ownership and being able to leverage that home ownership with the equity in there that I was able to create a small business and eventually be fortunate enough to serve here.

So would we be able, do you think, to use the downpayment program in some of the specialty programs, or would it have to be traditional mortgages?

Secretary MARTINEZ. No, sir. They would be available for all types of arrangements and opportunities. It would be in combination with everything else that is available in the assistance for families who want to reach home ownership. So it would not be instead of, but it would be in addition to all of the other available programs.

Mr. RENZI. So we here we have a means to provide over $200 million.

Secretary MARTINEZ. Of new money, by the way.

Mr. RENZI. New money.

Secretary MARTINEZ. It is totally new money.

Mr. RENZI. Right. In addition to $200 million of new money——

Secretary MARTINEZ. Absolutely; totally.

Ms. WATERS. Would the gentleman yield?

Mr. RENZI. I would be happy to yield.

Ms. WATERS. We need to straighten this point out. Wait just a minute. We did not see this new money in the budget.

Secretary MARTINEZ. It is absolutely in the budget. It is $200 million of new money. It does not take one dime from current HOME allocations, but it is totally a new money program. It is $75 million in the 2003 budget. Our request at that time was $200 million. This time, our request again is $200 million, even though only $75 million was funded in 2003. Every dime of that money is new dollars; totally.

Chairman NEY. We have 10 seconds remaining. Very interesting Q&A on opening statement, but that is good.

[Laughter.]

Maybe it is a new approach we will take. We can get more done.

Secretary MARTINEZ. I just did not want to lose the opportunity to clarify what I think is a very important point.

Chairman NEY. It was entertaining. I thank the gentleman from Arizona.

The gentleman from North Carolina.

Mr. MILLER. Thank you, Mr. Chairman.

I also agree wholeheartedly with the purpose of this legislation. Homeownership is a huge step into the middle class for a lot of low-income families. It is the most important investment most American families will ever make, and I certainly want to help make homeownership available for lower income families. My only concern is the one that we dwelt on already, but I would like to continue to dwell on it, and that is the importance of this being new money; that this was not going to be another shoe that drops later on whether in this budget or the next budget or the year after, that there will not be another instance of a working program being cut back or even eliminated to create a block grant program with less money.

I have very much enjoyed the discussion so far. I have heard the phrase “totally new money” and “every dime of new money” about 15 times in a 30-second period. I was very pleased to hear that. If the rest of today’s hearing continues in that pace, it would be a wonderful afternoon.

Thank you, Mr. Chairman.

Chairman NEY. I thank the gentleman.

Now, the gentleman from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman. I certainly appreciate this opportunity and am delighted to be a cosponsor of this legislation, along with my colleague from Florida, Katherine Harris. It is certainly a delight working with her on this and I commend her for providing leadership on this important issue.

I want to thank the distinguished panel of witnesses that are before us today, and certainly Secretary Martinez, thank you for coming before this committee. I signed on to cosponsor H.R. 1276 because we have to eliminate barriers to homeownership for low-income families. The most recent issue of Business Week highlights a new Ohio state study that says homeownership helps boost school achievement and reduce behavioral problems of students, compared to those children who live in rental units. The barriers to minority homeownershp study that was recently done by your organization, HUD, pointed out some very, very startling facts.

Your study showed that the nation’s overall homeownership rate is 68 percent. However, the homeownership rate for African Americans, Hispanics and other non-Hispanic minorities is only 49 percent. Between 1994 and 2001, the gap between these two homeownership rates has only narrowed by just 1.5 percentage points. There is something very morally wrong with that. The report concluded that if this persistent gap in minority homeownership is to be substantially narrowed, then the structural barriers to home-

ownership, particularly lack of capital for downpayment and closing costs must be eliminated.

In addition to helping more families own their homes, this proposal is also expected to strengthen communities by enlarging the number of stakeholders and thereby stabilizing and revitalizing our neighborhoods. Nearly half of all minority children are missing out in the benefits of living in a more structured home environment. These are underpinnings in our society that could be devastating for the future of our nation. In addition to providing downpayment assistance, we also must educate consumers to help prevent predatory lending practices and provide continued homeowner counseling.

I certainly look forward to hearing from you on these issues and the panel. They are very important issues. I also want to ask you to, if we can find time, I too want to stress the importance of why we are in the faith-based initiatives—doing away with the protections against discrimination. We held a hearing and you were not there. I understand you had other pressing matters. But I do hope that you may find a way while you are here, because I would like to know why, and certainly hope we will be allowed to do that.

One other point I do want to make while I am here, and I will finish this opening statement, is that I would also like to again impress upon you the importance of maintaining and helping us to revitalize HOPE Six.

Thank you very much.

Chairman NEY. I thank the gentleman.

The gentleman from California.

Mr. MILLER. Thank you, Mr. Chairman.

I agree with a lot of what the previous speaker had to say. In fact, I think our housing market tends to discriminate against everybody who wants entry-level housing. It goes beyond race. The entire system, specifically in California, is anti-opportunity for individuals who want to own a home. I have a friend who has a nonprofit. It is called Heart, in Rancho Cucamonga, California. Since 1998, they have given downpayments to 40,000 families. Many of these families might be just a mother with children, people who have never been in a home before, just to help individuals overcome the obstacles of downpayments that they generally do not have, and closing costs, which are a major issue in this country.

In this committee, we talk about a lot of things that are important and a lot of things that are good, but in many ways we only scratch at the problem that people face in this country trying to gain the principles and the concept of homeownership. I was a developer for over 30 years, and many of my good friends are developers today. The largest obstacle that they face today trying to provide affordable housing is government. It is really sad because many things we do, they sound good, they feel good, we hug each other and pat each other on the back when we get through doing it, and when you place that law into reality, it just stifles the private sector.

A lot of things that we should do, I think we fail to do. We look at Section 8 vouchers, and I agree there is absolute need for Section 8 housing in this country, but the problem is we have no where for people to move out of Section 8 housing into because

there is no affordable move-up market beyond Section 8, because the jump is so dramatic in many cases that when we get people into Section 8, they are relegated to that almost forever, because they have no place to move to. If we are ever going to be able to provide entry-level affordable housing in this country, we have to look to the next level of marketplace and try to figure out how to make that affordable also. That is a goal I have had.

I have been very involved in the endangered species act and many other issues out there that I believe are just breaking the back of industry when they try to apply affordable housing in reality rather than in concept. I have been looking at predatory lending in previous years and I believe predatory lending is an abhorrent process, but I think we need to be very cautious not to mix sub-prime with predatory, because there is a sub-prime market that there is a huge need for and a demand for. If we start blurring the concept of predatory and sub-prime, I believe we can hurt people that we are genuinely trying and attempting to help.

I am looking forward, Mr. Secretary, to your presentation today at this hearing, and I commend the chairman for offering us this opportunity.

Thank you and I yield back the balance of my time.

Chairman NEY. I thank the gentleman.

The gentleman from Alabama.

Mr. DAVIS. Thank you, Mr. Chairman. Mr. Secretary, good afternoon to you.

Let me say at the outset that I am one of the 35 cosponsors of this legislation. In that spirit, let me thank my friend, the gentlelady from Florida for her leadership. One of the happy things about this job is that we occasionally do get to reach across the aisle and form a bipartisan alliance. We do not get to do it every day. The nature of the institution is that we should not do it every day, but occasionally we do get to do it. If I can pause on this for just a moment, I do not think there is any member of this House of Representatives who frankly has probably been over the course of the last several years victimized more by the ugly side of bipartisanship than my friend from Florida. It is a compliment to her. It is a compliment to her spirit that she has chosen this issue as one of the first statements that she makes as a member of Congress, one of the first pieces of legislation that she introduces. It is also a testament to the fact that sometimes you have to look beyond the labels in this city. So Ms. Harris, I thank you for your leadership.

Let me welcome my friend Rob Couch from the New South Federal Savings Bank. I have to always look down to remember the name of the bank, Rob, but there is no more outstanding bank CO in the country and I am honored to have him here today. His bank has played a significant role in the city of Birmingham in this very area of finding ways to expand homeownership, finding ways to expand what I think all of us view as being a major corner of the American dream.

Let me make these general points to you, Mr. Secretary. The bipartisanship that has allowed this legislation to come to fruition and the bipartisanship that I think will result from this legislation becoming law in several weeks ought to be a hallmark for what we can do in these areas. I am struck as I have attended a number

of these hearings how many of us across the aisle agree on Hope Six; how many of us across the aisle agree on Section 8; how many of us across the aisle agree that if we can find ways, frankly, to expand housing, that we are giving people a chance to climb the economic ladder. There is nothing more important in this country right now.

I would encourage you and the president to take that spirit of bipartisanship into account as this budget winds its way through its final stages and to take it into account as you formulate housing policy. There is a very broad consensus on this issue. It reaches across party lines and this hearing ought to be an example of that to you.

I yield back the balance of my time.

Chairman NEY. I thank the distinguished gentleman for his statement.

Mr. Secretary, welcome.

I am sorry. I did not see the gentlelady from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I welcome the Secretary to these important hearings.

I just would like to say that it is important that we realize downpayment assistance is not a silver bullet. It is but one piece of the puzzle of increasing minority homeownership rates. Studies and anecdotal evidence both indicate that there are several additional barriers that we must confront. Minority borrowers are also more likely to face a lack of access to credit and poor credit histories; a lack of understanding and availability of information about the homebuying process; and continued housing discrimination. Many low-income and minority communities do not have local access to commercial bank branches. This severely limits access to lenders and increases the possibility of families not having traditional banking services.

Accordingly, many potential low-income homebuyers have not established credit or maintained a good credit history. Families with poor credit history are either rejected for mortgage credit or given loans with high interest rates. Additionally, homebuyers who do not understand the homebuying process or for whom English is a second language, are less likely to be successful in their search for a home of their own. Worst still, those who achieve homeownership are more likely to be victims of predatory lending, thereby increasing the chances of foreclosure. It is not enough to increase the number of minority families who achieve homeownership. They must have equal opportunity to maintain that status.

Thank you, Mr. Chairman.

Chairman NEY. I want to thank the gentlelady.

The gentlelady from Indiana, for an opening statement if you wish?

Ms. CARSON. I have a little opening statement here. Is anybody after me, Mr. Chairman?

Chairman NEY. No.

Ms. CARSON. That I could yield the balance of my time to?

Chairman NEY. If the gentlelady wishes.

Ms. CARSON. Well, nevertheless, I got a bad book, but I want to thank you very much for coming and for the work that you con-

tinue to do to enable us to do our work here. Having said that, Mr. Chairman, I will yield back.

Chairman NEY. I thank the gentlelady from Indiana.

With that, Mr. Secretary?

STATEMENT OF HON. MEL MARTINEZ, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary MARTINEZ. Thank you very much, Mr. Chairman. Chairman Ney and Ranking Member Waters and distinguished members of the committee, it is a real pleasure to be with you today to discuss this very powerful initiative. I am also delighted to be enjoying this sense of bipartisanship. I have always felt that much of the work that HUD does is a bipartisan effort and I think it is something that can best be accomplished when we all work together across party lines to help Americans of all walks of life to reach that American dream of homeownership and better housing.

I want to thank Congresswoman Harris for introducing the legislation, H.R. 1276. It already has, as we see here today, a number of cosponsors, and we look forward upon clarifying some of the perhaps misconceptions from the bill, that we might even have more participants and sponsorship of what I believe will be a real positive piece of legislation. We know that homeownership is a cornerstone of the American dream. The president has acknowledged this, and from early on in our administration we have been pursuing this American dream downpayment initiative as being a hallmark and a cornerstone of what can help more and more American families own a home.

As has been pointed out by some members of the committee, homeownership can provide families with the kind of wealth, the kind of family self-empowerment that can then propel a family into the middle class. It can allow someone to borrow against that home equity to start a business; it can send a child to college; or it can simply be passed on to another generation who can then begin life in a little better shape than the prior generation. All of these benefits which come to American families as a result of the dream of homeownership are well recognized and well acknowledged.

So we believe that as we seek to break down the barriers to the dream of homeownership, one of the most important things we can do is to give people a chance to become homeowners by helping with the downpayment. There is no question that a high downpayment and the closing costs that go with it is one of the most difficult steps that a family will find in reaching that dream of homeownership. Coming up with enough cash to pay the up-front costs of homeownership is often the single greatest barrier to buying a home. In Fannie Mae's 2002 national housing survey, a high downpayment was the barrier most frequently cited by those polled. Thirty-two percent of Americans said they would have a major difficulty making a downpayment. The lack of savings is a problem for many lower income and minority families. Oftentimes, the transfer of family assets from parents to their children can mean the difference on whether a family can buy a home. These intergenerational wealth transfers serve as a boost to homeownership by helping many younger families afford their first home.

In many cases, however, lower income and minority families simply lack the accumulated wealth that can provide for a downpayment and closing costs. To help families overcome this barrier to homeownership, the Administration proposed the American Dream Downpayment Initiative for fiscal year 2002 and is asking Congress to boost its funding level to $200 million for fiscal year 2004. The president's commitment to lifting families into homeownership through downpayment assistance dates back to his campaign in the year 2000. The American Dream Downpayment Initiative fulfills one of his longstanding housing goals. The initiative is housed within the home investment partnership program, which helps communities across the country expand the supply of decent and affordable housing.

Although the initiative is administered through HOME, I want to make it clear to the subcommittee that the dollar funding is not being taken away from any current HOME-funded programs. The American Dream Downpayment Initiative is funded through dedicated new dollars. Grants will be awarded to state and local governments to assist low-income first-time homebuyers with their closing costs and downpayments. To receive assistance, a family must have an annual income that does not exceed 80 percent of the median annual income. We anticipate that the initiative will help make homeownership a reality for some 40,000 American families, and this is year to year, providing an average subsidy of $5,000 per family. Although the American Dream Downpayment Initiative is not targeted specifically at minorities, we believe that it will be particularly effective at reaching minority populations, based upon the history of the HOME program. The HOME program today serves 55 percent of all the families that are served are from minority communities.

Congress appropriated $75 million for the American Dream Downpayment Initiative for the current fiscal year. We thank the Congress for doing so. As a result of your support, 15,000 families who have perhaps only dreamed of homeownership, will soon have homes of their own. We expect to complete the rulemaking process within the next few months, and have the entire $75 million appropriation delivered by the end of fiscal year 2003.

So I want to make it very clear that the $200 million is all new money. The HOME program, in addition to the $200 million of American Dream Downpayment assistance, has an increase in this year's budget of $113 million. So we are seeing an increase in HOME program of $113 million over and above the $200 million which we are asking as a separate item for the American Dream Downpayment Initiative. So none of these monies are coming from another HOME program or are being sifted out from anything that HOME does currently. This is not a set-aside within the HOME program. It is going to be the opportunity for this program to run alone. It also does not interfere or conflict with current things that HOME does or with CDBG dollars and the continued flexibility of the HOME program will continue to be visited in the way this program is administered.

We believe, as I know many others do, that self-sufficiency can come through homeownership and increase wealth for families. I know that the Congressional Black Caucus is very committed to

the WOW initiative, with homeownership wealth, and I can heartily endorse that. As you know, I have in the past been supportive of that program. We believe that in order for families to fulfill their opportunity to live the American dream that this is a wonderful way in which to do so. It is not a silver bullet. It is not the only answer. It is just one of many measures that we believe are important in order for us to help families fulfill that dream.

If I might, Mr. Chairman, just digress for one second on a separate item which has come up a couple of times on the issue of the faith-based and the issue of civil rights protections. Let me say that I am not aware, although I think there is maybe some misunderstanding, but I am not aware of anything in our rulemaking approach to the faith-based situation in which we are attempting to change any of the civil rights protections as I understand them to be available to all Americans. So I would look forward to discussing that more thoroughly with any of you that might be interested on an individual or collective basis. But I assure you that I am not interested, and I believe this administration is not interested in utilizing what is a very good concept, the faith-based initiative, to in any way abridge civil rights protections.

[The prepared statement of Hon. Mel Martinez can be found on page 84 in the appendix.]

Chairman NEY. I thank the Secretary for his time and his testimony.

The question I wanted to start with, and this has come up several times, I know, to you and in phone calls today to our office some people asked questions about this general direction. Is the money for the New American Dream Downpayment fund new money? As you know, people have expressed concerns that the money for the downpayment program will be subtracted from the current HOME program. We have already discussed that a little bit today. So I just though for the record and one more clarification statement, you might want to address, and can you assure us that the money will not be taken from the existing HOME program to pay for the new program?

Secretary MARTINEZ. The best evidence I can give you of that is not only to say that you are correct, it is not going to be taken from anything else—just to be very, very clear—but in addition to that, the HOME program is increasing this year by $113 million. So everything HOME has done in the past we will continue to do, only that it will be enhanced by $113 million or 5 percent additional new dollars. Over and above that, we are asking for $200 million, which if it was not for this very important initiative of President Bush's which goes back to his campaign pledges, would just simply not be part of the HUD budget. So this is all new money which will only be available to administer the American Dream Downpayment Initiative.

Chairman NEY. So, Mr. Secretary, it is not a set-aside?

Secretary MARTINEZ. It is not a set-aside.

Chairman NEY. Okay. I would also want to ask you, any ideas of what type of approach you would take on outreach to get the message out on this if it is passed?

Secretary MARTINEZ. One component part of our broad-range set of initiatives to achieve homeownerships goals that we have set is

to also do homeownership education. Our budget this year has a record number of dollars that we are asking for homeownership education—$45 million. It is the most that has ever gone into this arena and it is substantially more than what it was when we began our work in this administration. That money, along with other purposes and efforts, will attempt to reach out to families and explain to them that they, too, can be homeowners; that in fact, there are ways to get assistance with the downpayment; that in fact there are ways to help them with their credit history; there are ways to find a vehicle by which they can become homeowners. And then stay with the family and continue to give them the support and counseling that is necessary to ensure that they can be stable homeowners.

Chairman NEY. Thank you, Secretary.

The last question I had is, you mention in your testimony there was $75 million included, and therefore you are completing a rule.

Secretary MARTINEZ. Correct.

Chairman NEY. Now, in that rule, as I understand it, the Department would be using only HOME and CDBG as the criteria. Is that accurate?

Secretary MARTINEZ. The current formula that we are working on, a rule which by the way we hope to have out this summer to ensure that it gets out the door timely, is a formula that will be based on the same basis as the regular HOME program formula, which is used to establish a need component and determines most of the participating jurisdiction allocations under the American Dream Downpayment Initiative.

Chairman NEY. The reason I mention it, I just wondered if in this process, and I understand you are looking at HOME and CDBG, but in this process, would there also be an effort to be able to look at, for instance, to just throw one item out there, mortgage revenue bonds? I am just wondering what flexibility would be there. I do understand part of an argument that would be, if something does not have a certain verifiable track record, that would create a problem. But I just wondered if you thought at this point in time in the process it will be just CDBG and HOME, or if there would be an opportunity to look at other things?

Secretary MARTINEZ. We understand that there are a number of other things out there that folks are doing that are good things. The problem at this current moment in time is that we do not have the availability of reliable data to be able to utilize it in this year's formulation. As we go forward, we look forward to finding a good tracking of other things that are being done so that we can incorporate those things into the formula. We just do not think that we can accomplish that in this initial year with the $75 million, which we almost feel is like a pilot sort of program.

Chairman NEY. I understand. Thank you.

Ranking Member Waters?

Ms. WATERS. Thank you very much.

Mr. Secretary, I know that your intentions are good. The bill certainly does not clarify that there will be new money. I take your word for it that there will be new money in this program and that the HOME budget is not being reduced in any way to account for this new money.

Let me just say this, there is an obvious need for homeownership and downpayments certainly are obstacles to homeownership. There are any number of programs that provide homeownership downpayment assistance that are already in government—Fanny Mae, Freddie Mac, all of that. I have not done enough research to understand how many people they are helping and how those programs are doing. I know that when you take a look at the need, you mention and you agree that $75 million is just a drop in the bucket and $200 million is not an awful lot either, dealing with the size of this country and the need that we have.

I look at these programs this way. What I do not particularly like is, I do not like a kind of political response with a nice name to a serious problem. I do not like programs that basically put the right title on it, and then you have nothing else to go with it. For example, I could sit here for the next 10 or 15 minutes and talk about what it takes to get somebody into a home. It has been mentioned here. It is not just a $5,000 downpayment or $10,000, we really do believe that there is something to dealing with the lack of access to credit to begin with. In this kind of program, what you will get is you will get the cream of the crop, people who can qualify without a lot of help, and they will be credit-worthy or whatever you want to call it, and they will get their $5,000 or $10,000. Our problem really lies with a lot of what Nydia Velazquez talked about—access to credit and a lot of other things.

Again, and I want to tell you, in addition to all those problems, the need for counseling, the need for education—all of that that is not designed within this program—this is a very simplistic way of looking at it. I think if you want to do something comprehensive, that we certainly should have a real comprehensive program of assistance to get people into homes that would include not only the counseling and the education and the access to credit problems and the red-lining and the predator lending and all of that that goes along with it. But we would also include the private sector. The federal government will never be able to have enough downpayments to make a dent. Hopefully, some people will be able to be helped; a few people will be able to be helped. But it seems to me if we couple this with a way by which we encourage the private sector to come up with products, and we have. The chairman and I were just sitting here talking about how some people can get mortgage assistance without downpayments depending on the institutions and who you are when you talk to them and all of that. Then I think that if we get the private sector involved, then it becomes a product that is offered, that is used, where people evaluate it in ways that they can get no downpayments, I think we really would be doing something.

I want to tell you something, when you look at the philosophy behind why downpayments, it just does not make any sense anymore. It used to mean that you were more worthy; that if you somehow put up a little bit more money, then you are likely to make your payments. Not true. The fact of the matter is there are people who will never have a downpayment, who make their rental payments every month on time, and they would be just fine if they could get a product that could be offered to them by the people who really do the financing, who do the mortgages.

So all I am saying to you is this, fine. This is a nice program with a nice name and it looks very, very good. It is a drop in the bucket compared to the need and it does not have going along with it the other kinds of things to make for successful homebuyers that will keep people from being foreclosed on. But I thank you for your effort.

Thank you.

Secretary MARTINEZ. May I reply please?

Ms. HARRIS. [Presiding.] Yes. Her time is up, but please go ahead and reply, Mr. Secretary.

Secretary MARTINEZ. Ranking Member Waters, I appreciate what you are saying and I agree with you wholeheartedly, that a fancy name and a do-nothing program is not anything that I am interested in doing. That is why that is not what we are doing. We are doing a comprehensive program just as you described. We do have a partnership with the private sector just as you describe. We have another fancy name for it. We call it the Blueprint for the American Dream Partnership. We had a White House conference in October to launch this effort with the president participating and endorsing it and giving it his commitment. What we have done is, we have done exactly what you are suggesting. We are reaching out to the private sector, to mortgage bankers, to Fannie Mae, to Freddie Mac, to the realtors, to the homebuilders, to everyone involved in the housing process to reach out to them and get them all to begin to do things that are going to be meaningful and that are going to bring more and more families into homeownership.

This drop in the bucket program will not be just a drop in the bucket to the 40,000 Americans who will now own a home because they will get downpayment assistance. To them, it is the world, it is everything.

Ms. WATERS. Will the gentleman yield?

Ms. HARRIS. Your time has expired.

Ms. WATERS. My time is over.

Secretary MARTINEZ. In addition to that, I think you diminish the importance of all that we are doing, because it is not just about a downpayment program. This is what this bill is about. It is what this hearing is about. All of our programs are comprehensive in nature. They attempt to do more availability of affordable housing, for instance, through the single family housing tax credit proposal that is a part of this year's budget. So we are reaching out, I believe, in a very comprehensive way that I believe does in fact go to the poor families of America—52 percent of the recipients of this downpayment assistance will have a median income of less than 60 percent. I believe that it is significant in terms of the type of Americans that it will be reaching out to.

So I would not want to be sounding too defensive about it, but I do think that it is important that at least we set the record straight. Besides that, I want to just tell you that in terms of assurance to you that this is new money and it is not going to come from existing HOME program, the best I can give you is the president's budget submission where this is included in that. I believe the budget documents submitted by the president to the Congress clearly delineates how much the HOME program is getting and

over and above that, there is $200 million for the American Dream downpayment.

I hope that not only will we have your enthusiastic support for this effort, but that I might even see you as a sponsor of the bill.

Ms. HARRIS. Thank you, Mr. Secretary.

Ms. WATERS. If you had invited me to the White House conference that you all had; if you invite the co-authors who are Democrats——

Secretary MARTINEZ. Would you come?

Ms. HARRIS. Thank you, Secretary. Thank you.

Ms. WATERS. We may have something going, then I would know what you know.

Secretary MARTINEZ. You have a standing invitation. I will see to it.

Ms. HARRIS. I will recognize myself since I am next.

Thank you, and for the ranking member, I thank you for those questions. Secretary Martinez, I am thrilled to know some of the more expansive role that you are playing and the White House. I think it is important to know the context of the American Dream Downpayment Act.

Now that we have seen that it is going to be new money and we are really focusing on some of the educational aspects as well, and the 80,000 people that it will assist—families. We think that it is so important. Can you highlight three things for me that you believe in your own words will occur?: Number one, the wealth that you believe will be generated through this homeownership act; second, how you see the move from Section 8 into that personal homeownership; and then third, how you see it bolstering our nation's housing industry and expanding the tax base.

Secretary MARTINEZ. Let me touch on that third issue, because frankly we have dwelt on the other two a little bit already, but I want to make sure that I hit on that third before I might forget my train of thought.

We believe that by increasing the ranks of homeowners in America by 5.5 million minority families between now and the end of the decade, which is part of what this effort here is about, that is what the American Dream Downpayment Initiative will help to do, that we will generate $256 billion of economic activity. So while we see the housing industry today as one of the strongest if not the strongest segment of our economy, in what is we know a bumpy economic time, we look forward to the American Dream Downpayment Initiative playing a part in this overall effort to improve America's families, while at the same time providing a tremendous economic boost of $256 billion.

Now, in terms of Section 8 families, we see there a group of people who have been under rental subsidy programs, but now have a couple of avenues in which to get themselves into homeownership and begin to build the kind of equity that we will talk about in a moment as well. These families now have a vehicle of accumulating their Section 8 vouchers towards a downpayment, but in addition to that, they also can get assistance from the American Dream Downpayment Initiative so that they can at times, for no more than they are paying for rent, be able to reach into the homeownership ranks and begin to build the kind of family wealth that the

first part of your question implies, which is the fact that the way middle class America has reached financial self-sufficiency has been in large part through homeownership. Long before there were retirement accounts and long before the average American family found investment in the stock market, the only and the real way in which America's families became self-sufficient economically was through the equity in their home. This is what I want to see and what the president is seeking to bring about for 5.5 million more minority families.

Ms. HARRIS. Thank you, Secretary.

I recognize Mr. Scott from Georgia.

Mr. SCOTT. Yes, thank you very much.

Mr. Secretary, bad credit scores are also a major barrier to homeownership. What steps do you recommend to educate potential homebuyers in order to improve their credit scores?

Secretary MARTINEZ. Sir, I think that through our homeownership education programs, a lot of organizations in our communities, whether they be faith-based or otherwise, are working with families to try to improve their credit history. Many times we find that there is also the, and this month we are celebrating fair housing month, where we focus and emphasize in our department the historic ties to the Equal Housing Act of 1965 and the fact that through this act, we began to be empowered at HUD to ensure that all Americans had a fair opportunity in the arena of housing.

One of the things that we must look at is how difficult sometimes it is for families with atypical credit histories to get access to credit and how they might sometimes be treated differently just because the way their earnings are reported, because of perhaps coming from another place in our planet or things of that nature. In addition to that, we also have to work with families to improve their credit scores. Homeownership education, the $45 million that we have in our budget, will assist in doing so.

So we look at it, again, comprehensively. It is not just about improving credit scores by education, by teaching families how to better order their finances or how to erase a past credit history, but also through, frankly, the problems of discrimination which while obnoxious and part of our history, are also really part of our present as well, and we need to continue to work hard to ensure that that is not a problem that is keeping families from becoming homeowners.

Mr. SCOTT. And just a second part of my question is that, given now that the average interest rates on a fixed-rate 30-year mortgage are at a 30-year low, as it is right now, do you believe that this is the most important or opportune time to provide some downpayment assistance to low-income families?

Secretary MARTINEZ. With the low interest rates, obviously the monthly payment becomes less and less of a burden, but there still are those insurmountable downpayment and closing costs. So precisely, this is a time when a shot in the arm with downpayment help of $5,000 to a family, in addition to what they can save themselves, would make a big difference. So I believe that the downpayment issue, which frankly I do not think is just an issue of ensuring that it is a better credit or more worthy individual. I think it is in fact a partnership that financial institutions like to see. They

like to see their investment be equally an investment to the homeowner. So building an equity interest in a home at the time of ownership is an important component.

So we want to see families give a little something of themselves, but we want to be able to also give them that bridging to homeownership. Never has there been an opportune moment, or certainly not in the past 30 years, like there is today.

Mr. SCOTT. Very good. Thank you, sir.

Secretary MARTINEZ. Thank you for your question.

Ms. HARRIS. Thank you.

The chair recognizes Mr. Renzi, the gentleman from Arizona.

Mr. RENZI. Thank you, Madam Chair.

I want to point out to the gentlelady from California that it might help. On page four, line 19, the legislation itself authorizes $200 million in the language for fiscal years 2004 and 2005. In moving this out of committee and onto the floor, we would actually be authorizing the appropriation of the $200 million and that you do not need just to refer to the president's budget, but you can refer to the actual language to get this done.

I want to go back to my opening statement where we talked a little bit about the low-income assistance program that helped me get to Congress. I remember back to the days of the FHA-235, and we talked about some of the other types of programs that exist out there for low-income, underprivileged, strong, growing Americans to be able to reach out, get those programs and gain homeownership. I am not aware of a program that was developed for low-income prospective buyers that allows you now to put another program on top of it and provide you with a downpayment. Now, that does not mean that they not out there, but for me what it says is you are getting something on sale and you are getting the coupon to go with it, almost double off. That kind of incentive, along with the historical low interest rates that my friend from Georgia talked about, I think that combines to make this an incredible time and an incredible opportunity.

One of the questions that I have is when we talk about some of the old FHA programs, when we talk about some of the new incentive-type low-income programs, I know that I was able to achieve not only homeownership, but borrowing against my home to build my business on a second mortgage. I realize looking at the language of the bill that the eligibility would now allow for you to borrow the downpayment or get the downpayment from this program and apply it to a second mortgage. Am I correct in that assumption?

Secretary MARTINEZ. I believe that you could ultimately get a second mortgage on your home. You could not at the outset have— I mean, the downpayment assistance program would be independent of whatever you might do with your mortgage.

Mr. RENZI. Okay. So the downpayment assistance program would apply to the principal purchase of the home.

Secretary MARTINEZ. That is correct. Then later on——

Mr. RENZI. Then later on once you have the equity, you could borrow against it.

Secretary MARTINEZ. Right.

Mr. RENZI. Okay. It is that second mortgage, borrowing against that equity, that then I think lifts individuals to the next level.

Secretary MARTINEZ. You have to have a margin of equity before you can do that, but at that time, yes, I think that would be permissible under the program.

Mr. RENZI. Is that something that we are thinking about in the future, where we would actually develop programs to assist with second mortgages. I realize, as the gentlelady from California pointed out, we have so many people who need first mortgages.

Secretary MARTINEZ. I think the marketplace would accommodate that. I do not think that we would need a government program. I think that the marketplace would probably pick that up because at that point the collateral for the loan would be sufficiently secure with the equity in the home. We might defer to our banking friend visiting here today from Alabama for that answer, but I think that that would be the case.

Mr. RENZI. Okay. Thank you, Mr. Secretary.

Secretary MARTINEZ. Yes, sir.

Ms. HARRIS. The chair recognizes Mrs. Lee from California.

Ms. LEE. Thank you, Madam Chair. Let me thank you and our ranking member for this hearing, and I thank the Secretary for being here.

I want to ask you a couple of questions. I think our ranking member, Congresswoman Waters, really summarized the complexity and the multi-faceted approach that is required to increase homeownership. One is, of course, the development of a production program to increase the stock of affordable homes. Of course, we are working to create a national housing trust fund and would like to get your take on if that would or would not be useful in terms of creating homeownership.

Secondly, let me ask you about a point you made in your statement. Yes, $75 million was a drop in the bucket, however you note that 15,000 families have participated. I would like to find out of those 15,000 families what you are seeing in terms of Northern California, the State of California, Massachusetts, New York, because of course in many of our areas, a $5,000 downpayment when the average cost of a home is $400,000, $450,000, average income $35,000 to $50,000—how do these 15,000 families break down in terms of where they are located and what in fact is HUD doing to ensure that the affordability gap is addressed between income and cost of housing?

Secretary MARTINEZ. First of all, our rulemaking is still in process and the monies have not begun to go out yet, but they will go out in accordance with the formula, which formula is dictated in large measure by population. So to whatever degree your state, your district today receives HOME dollars, there will be a very close parallel to what they will receive in their proportionate share of the $75 million in this year's allocation or the $200 million in the future.

Ms. LEE. But Mr. Secretary, though, a $5,000 downpayment—what I want to know is, even based on the formula we receive, whatever funding allocation that there is based on the average cost of a home, a two-bedroom house being over $400,000 and the average income $35-50,000, how does this $5,000 address that gap?

Secretary MARTINEZ. It would have to do it in conjunction with the other aspect of the HOME program and the CDBG program, which then—the HOME program, we have $2.2 billion, I believe if my memory serves me correctly, going out this year, with a 5 percent increase of $113 million. That will go towards creating more affordable housing opportunities throughout the country, so then your local jurisdiction would have whatever programs they use their HOME dollars currently for in order to provide a stock of affordable housing that families then could go to and use their downpayment.

Ms. LEE. Is that in the bill? Because—and the same thing with CDBGs, that is not on the chopping block this year at all? You are fully funding that?

Secretary MARTINEZ. Yes. CDBG and HOME is full funding.

Ms. LEE. Is it authorized?

Secretary MARTINEZ. Of course.

Ms. LEE. Have you reauthorized it or sent up a proposal?

Secretary MARTINEZ. CDBG, of course it is, yes.

Ms. LEE. And it is reauthorized?

Secretary MARTINEZ. Reauthorized and fully funded, and HOME is reauthorized and will receive an increase of 5 percent or $113 million new money.

Ms. LEE. So for example, if a person finds a house in any of our areas and they do not qualify, the average downpayment would be—they do not qualify in terms of income—average downpayment is at least $25,000 to $30,000. You are saying they can piece together that $25,000 to $30,000 to be able to participate in this and to get the downpayment for a $450,000 house?

Secretary MARTINEZ. What I am saying to you is that in your local jurisdiction, you now receive HOME dollars. HOME investment and partnership dollars are designed to provide affordable housing availability. So whatever they are doing to provide availability of affordable housing in your community, that program is there and available. Hopefully, there are homes that they are putting on the market that are reachable to families in the area for the type of low and moderate income that we are looking at.

Ms. LEE. But in most communities in high cost of housing areas, they are not. And that is what I am asking you. How does the $5,000 fit into that?

Secretary MARTINEZ. Let me ask my Assistant Secretary, Roy Bernardi, for Community Planning and Development, and address that issue more specifically.

Ms. LEE. Thank you.

Mr. BERNARDI. Good afternoon, congresswoman. In the fiscal 2003 budget for HOME, the allocation will this year provide 98,000 production units. Of that, the rental units that will be constructed will be about 42,000; homebuyer units at 37,000, and homeowner rehabilitated units at 19,000. That is about 98,000 units. As the Secretary was indicating, with the increase in the HOME allocation for fiscal year 2003, about $100 million more than fiscal year 2002, and with the 2004 budget that you are going to be looking at from now until obviously you pass it, there is $113 million increase in the HOME formula program. Those monies can be used by the participating jurisdictions obviously to create the kind of affordable

housing, both homeownership and rental housing, that would be affordable to folks that you mentioned that are perhaps in the $35,000 to $45,000 a year income range.

Ms. LEE. What I am saying is that the average cost of a house—are you——

Ms. HARRIS. Ms. Lee, I am sorry. Your time is up.

Ms. LEE. I will submit the questions to you in writing, because if the average cost of a house is $450,000, and the average income it $35-50,000, how does that gap get closed?

Secretary MARTINEZ. By the HOME program building homes, subsidized homes with assistance from HOME dollars that are not going to be at the market rate of $400,000. There are going to be some substantial number below that, so that they are affordable to poor and low to moderate income families.

Ms. HARRIS. Thank you, Secretary. Ms. Lee, if you could follow-up with some written questions, that would be great. We will get those answers for you. Thank you, Secretary.

Mr. Miller from California?

Mr. MILLER. Thank you very much.

We have been discussing in recent years, and I always supported the concept of doing anything we can do to get people out of renting Section 8 homes. That would be, I believe the president was talking about using housing choice vouchers. If we can—I do not know how great it is going and I would like to get an answer—I know we talked about allowing them to have 12 months worth of vouchers they could use towards a downpayment on a home. I mean, in the long run it seems to make a lot more sense if we can get people out of Section 8 homes into their own home, the rent does not increase over the next 20 years. They have a stable rent if they buy today, where if we keep them in Section 8 houses, the rent is going to increase every year for the next 20 years and we relegate those individuals to Section 8 houses. So how is the—I believe it was called the housing choice voucher program that is in the budget—how is that going at this point?

Secretary MARTINEZ. We have a Section 8 voucher for homeownership program. That program allows the family to accumulate their vouchers and then put them towards a downpayment so that they——

Mr. MILLER. So they can acquire 12 months and put that towards the downpayment on a home?

Secretary MARTINEZ. Exactly. And then that gives them—you see, we are very convinced that in spite of some who may suggest that this is insignificant, that the greatest single barrier to homeownership—I mean the facts show it—is the downpayment. So if you can give a family assistance in getting that downpayment, they can then more likely than not in many instances get themselves into homeownership. So the Section 8 move-up opportunities——

Mr. MILLER. So the program we were talking about two years ago has been enacted. They can still use their Section 8 vouchers to make a payment, but that creates a stabilized payment structure over the 30-year loan or whatever it might be, instead of having to increase those vouchers yearly as you have to do in the open market on rentals.

The other question I have is, you have seen an increasing amount of nonprofits get into buyer downpayment assistance in recent years. Heart, that I previously mentioned, from 1998, they started in 1995, but in 1998 they got into downpayment assistance which provides a buyer with up to $15,000, depending on the need of the individual. They have put about 40,000 people in new homes in that period from 1998 to date. How does this program complement the private sector assistance program that we currently see out there that we are proposing now?

Secretary MARTINEZ. I am sorry, congressman. I lost your question along the way somewhere.

Mr. MILLER. There are numerous nonprofits today that have started up in recent years to provide downpayment assistance to homeowners. It is all private sector money. There is no government involved. We are now creating a government program. I am asking how that government program complements the private sector programs that currently exist.

Secretary MARTINEZ. What it does is it creates a larger——

Mr. MILLER. I do not want them working against each other. I would rather see something expand opportunity, rather than prohibit it.

Secretary MARTINEZ. It does expand opportunity and it is a flexible program and it will work to enhance those already existing programs. In fact, some jurisdictions, you will hear in the next panel I am sure, already utilize HOME dollars towards the downpayment, which is great. The president's commitment to homeownership is focused, so therefore we want to make sure there is at least $200 million going out every year from every jurisdiction towards the downpayment assistance program. There are others already doing it. The private sector is already doing it. Because we know it is the single greatest key towards putting a family in homeownership. So this is just a focused program that is going to be there for $200 million new money just to do that program.

Mr. MILLER. HUD's goal I would assume in the future is talking about the quality nonprofits. I know there are some rascals out there we need to deal with occasionally. But the quality nonprofits out there, HUD is working in good cooperation with them. You and I met about two years ago, and about three or four years ago we had some problems out of certain HUD offices, that people would put certain things on the Internet that caused difficulty for nonprofits when they went out to get loans to help people. I notice that problem has been resolved. I applaud you for that. I just hope that the program being implemented will complement everything that currently exists to really expand opportunities that we have in the marketplace.

Secretary MARTINEZ. They will be a partner and an aider; not to be in any way a competer or a detractor.

Mr. MILLER. Thank you, Mr. Secretary.

I yield back.

Ms. HARRIS. Thank you, Mr. Miller.

Mr. Davis from Alabama?

Mr. DAVIS. Thank you, Ms. Harris.

Let me, if I can Mr. Secretary, go back to an observation you made earlier, as I think it is important and I want to make sure

that you are agreeing with me on this. You were making the point in your colloquy with Ms. Lee about the fact that states will continue to receive under this initiative the same rough percentages that they were receiving under the old HOME initiative. That is an important point, and just to make it clear to you and to the panel why that is important, there are some States that have used a lot of the HOME funds for downpayment assistance. There are other States that have had the exact same commitment to downpayment assistance, but they have relied on what Chairman Ney described earlier, the mortgage revenue bonds or any of a number of other funding schemes that may be available. Alabama happens to be one of those states that has not necessarily been heavily relying on the HOME formulas, but they have used other means, the mortgage revenues, for example, to meet this commitment.

It has been a concern under one of the subsections, the formula allocation subsection, that when you go about computing your new formula under this statute that you will look at, quote, a participating jurisdiction's need for and prior commitment to assistance to homeowners. There has been some concern that if that is measured, as you said in your opening statement, by what has been spent under the HOME initiative, that that could actually result in a loss of funding for some States, Alabama being one of them.

Now, you have said, and I think what you have said has been sufficient to correct this, that it is the commitment of HUD and the commitment of the Administration to make sure that the percentages are kept constant. Is that correct?

Secretary MARTINEZ. It is not only our commitment, it is what the law will dictate that we do.

Mr. DAVIS. All right. I would simply ask, and I have discussed this with Ms. Harris before, but would you be amenable to a friendly amendment to this legislation that would just clarify what you have said, that the percentages will be kept constant so that in an effort to expand we do not end up unintentionally contracting states like Alabama?

Secretary MARTINEZ. Sir, I would work with you on the language to make sure that we do not do something that we would not want to do, but at the same time the concept here is that this would flow through the HOME dollar formula in a way that would not diminish what already goes to any given state. So I would agree to work with you on that.

Mr. DAVIS. All right. We will certainly do that, because I think again your commitment is that jurisdictions be rewarded for engagement in this area and that engagement can obviously come in different forms.

Let me completely digress because we do not get the benefit of questioning you every day, so I want to take advantage of this time and ask you a few other things. I want to go to something Ms. Waters and Ms. Velazquez said earlier about discrimination that exists in the housing market that might obviously lie on top of any economic barriers to obtaining downpayments. Obviously, as I move around my district, occasionally I run into people who do not necessarily agree or do not necessarily understand that there is still current and present discrimination that goes on. So for the benefit of some of those folks, Mr. Secretary, would you delineate

what you consider to be the primary types of discrimination that still go on in a very specific sense so that we can get a better idea of how we might address some of those things?

Secretary MARTINEZ. I would be happy to have further information provided to you by our Office of Fair Housing and Equal Opportunity. Carolyn Peoples, our Assistant Secretary, would be certainly available to you at any time. But let me just say clearly that there is discrimination as we speak today in rental housing. It is more pronounced today and with less improvement as it relates to Hispanic discrimination than it is even as to other ethnic or racial groups. In addition to that, in homeownership there continues to be discrimination. There is clearly discrimination in the opportunities for credit the families have. I think what the gentlelady has indicated is the true fact and the correct fact.

We believe that while, you know, we do our own studies, so these studies are available to you and we would be happy to provide them. But without question, there exist problems and there continues to be a need for us to enforce our fair housing laws; for us to do outreach and be out there vigilant and working with community organizations to improve the chances of families not being victims of discrimination.

Mr. DAVIS. And let me just ask you this couple of follow-ups, if I will. Given the fact that we have an acknowledgement that there is still continuing institutional discrimination in these areas, give me some specific legislative guidance or give this committee some specific legislative guidance of where we might go if we wanted to mount an attack on what you acknowledge is ongoing discrimination. Is it not pervasive. It is not everywhere, but exists in some limited pockets. Give me, based on your expertise as HUD secretary, give me some guidance on what direction you think we might take, specifically, to address the problem.

Secretary MARTINEZ. I think in the question of fairness, I should do it more comprehensively and I think I should have Carolyn Peoples involved, who is day-to-day charged with this task. So I would hate to incompletely answer your question. So I would love an opportunity to sit with you and discuss it.

I think frankly also I have to tell you, a lot of the laws are already there. What we need is enforcement opportunities and continued outreach in this area, working through our FIBS and our FAPS, our community organizations, state organizations that pursue issues of discrimination. I think one of the issues frankly in very surprising numbers is Hispanic rental discrimination. While other forms in other groups has dropped, it has remained constant over the last however the period of years that the study covered. I think a lot of that is a lack of information, a lack of outreach, a lack of knowledge.

So we need to continue. I think an area where we need to do it is to be very proactive in informing people that they do have access; that our offices at HUD are charged with the responsibility of enforcing fair housing laws; and that we do have proactive activities going on about this. So I would love to have Carolyn and I sit down with you and provide maybe a workshop where we could discuss ways in which we can work together towards improving the chances.

One thing I will point out is that HUD does not regulate financial institutions. So when it comes to a lot of these issues on lending discrimination, which Ms. Velazquez very appropriately pointed out, they really do not come under the jurisdiction of our department, but really lie in other areas. But to the extent that we can deal with the issues, I would be happy to sit down with you.

Mr. DAVIS. Would you yield me 15 seconds, Ms. Harris?

Secretary MARTINEZ. I am sorry. I was long on my answer. That is my fault.

Ms. HARRIS. Yes.

Mr. DAVIS. Once Ms. Peoples produces the study that you talked about, would you be amenable to stiffening the penalties that do exist for practicing discrimination in these areas? I recognize HUD does not govern the area, but just as a public servant——

Secretary MARTINEZ. I absolutely believe that it is something that is insidious. It is something that prevents our families from——

Mr. DAVIS. But do you support stiffened penalties?

Secretary MARTINEZ. Absolutely, I would. Yes, sir.

Mr. DAVIS. Okay. All right. Thank you.

Ms. HARRIS. Thank you very much, Mr. Davis, Mr. Secretary.

Ms. Velazquez from New York?

Ms. VELAZQUEZ. Thank you.

Mr. Secretary, while I appreciate your earlier statement that 55 percent of HOME funds currently aid minority families, I would like to know what assurance can you give us that the same will hold true with this new initiative?

Secretary MARTINEZ. The first thing I can tell you is that our whole initiative is geared towards minority homeownership. The whole focus of what we are doing, particularly with our private sector partners, is geared towards reaching into minority communities. So I cannot tell you because it would be I think in violation of the formula that this will only help minority families or will be given any given percentage, but the best I can give you is the historical background of how HOME dollars have been spent in the past. I think that would be at least a bottom number of where we will be in the future as it relates to this. My hope, my goal and my expectation is that more than 55 percent of the families served with this downpayment assistance will be in minority communities.

Mr. BERNARDI. Ma'am, the numbers in the HOME program since its inception is 270,000 families have been assisted homebuyers. Of that amount of money that has gone to the HOME program, that is about 25 percent that the participating jurisdictions in the state used for homebuying programs. As the Secretary mentioned earlier, about 52 percent of the people that are assisted, their income is less than 60 percent of median. And of the total amount, under 80 percent, there is another 47 percent between 60 and 80 percent. So this money obviously is going to go to the people that need it the most. Congresswoman Lee, I was told that when it comes to downpayment assistance, that $5,000 is an average. Obviously, we use that to compute the 40,000 homeowners that we would assist with $200 million. But the participating jurisdiction can change that. They can make it $10,000, $15,000; I believe up to $20,000. So to buy a home in an area where home prices are a little higher, that

would obviously have less people that could participate in the program, but they could give more money.

Ms. VELAZQUEZ. Mr. Secretary, what will HUD do to ensure that those families who receive downpayment assistance will receive homebuyer counseling?

Secretary MARTINEZ. I think the HOME program as it is administered by the states will ensure that the families they work with are receiving homeownership counseling. What we have done to help that along is to provide $45 million, the largest amount ever, in our budget request for homeownership education. So whatever has been going on in the past should be enhanced by this particular new budget request, but Mr. Bernardi can probably add a little something to that.

Mr. BERNARDI. In the HOME program, there is approximately $16 million for technical assistance that we provide to our participating jurisdictions and to the states to make sure that they do the things that are necessary and have the capacity to provide the homebuyer education programs that you are speaking of—both the counseling and the education. What we need to obviously make sure is not only that we place someone in a home, but they are able to maintain that home.

Ms. VELAZQUEZ. Is there any way that you can measure to what extent they provide counseling and education?

Mr. BERNARDI. I can get back to you on that and let you know exactly the progress that we make with those programs. Yes, ma'am.

Secretary MARTINEZ. I think, without being specific, as a practical matter I think that that is a component part of what just about every jurisdiction does. Everybody recognizes the importance of homeownership education as a component part of bringing someone to homeownership.

Ms. VELAZQUEZ. Thank you, Madam Chair.

Ms. HARRIS. Thank you, Ms. Velazquez.

Mr. Watt from North Carolina?

Mr. WATT. Thank you, Madam Chair.

Welcome, Mr. Secretary. I am sorry I was not here for your testimony, but I had another hearing that I was involved in and could not get there.

I just have one question. I fully support homeownership and I know that downpayments have historically been a major impediment to homeownership. I have one question, and if you have already answered this question, just tell me you have and I will go back and look at the record. I will not take your time. There is $75 million in the 2003 fiscal year budget for something called the American Dream Downpayment Fund, for which HUD is currently writing regulations. How would this bill differ in what you are able to do under the bill than the regulations that you anticipate writing under—I guess the question is, do you already have the authority to do everything that this bill would authorize?

Secretary MARTINEZ. No, we do not. The one-year allocation of $75 million for which we are writing regulations is for the one single year. In order for this program to go into the future, we need the new legislation which is now being moved. So the regulation that we are putting forth in terms of how it administers the pro-

gram will be very similar to the legislation we are proposing. But the two are necessary, one, for the 2003 $75 million allocation, the legislation, H.R. 1273, for going forward with the Administration of the program.

Mr. WATT. I guess my question is, if you have the authority to do it in 2003 without a bill, couldn't you exercise that same authority to do it in 2004 and 2005?

Secretary MARTINEZ. No, because there was authorizing language for specifically taking care of the 2003, but not for the future.

Mr. WATT. Oh, so it got authorized. Okay.

Secretary MARTINEZ. We are starting over.

Mr. WATT. Okay. But in effect, the bill would statutorily frame a program that you are currently framing through regulations? Is that correct?

Secretary MARTINEZ. Right. That is correct.

Mr. WATT. All right. I will yield the balance of my time to Representative Barbara Lee.

Ms. LEE. Thank you. I thank the gentleman from North Carolina for yielding.

Let me just ask a couple of follow-up questions. I am glad to hear you say that the money can be used, it does not necessarily have to be $5,000, but I think it is important for us to know that $20,000 even is about 5 percent of a $400,000 home, so what does that mean in terms of regional differences and how many people or how many families will be eligible if that is the case. You mentioned earlier that by combining HOME, CDBG, and now the downpayment assistance, that there would be additional funds available for this kind of effort. I have to assume that you believe that if you create more affordable housing or more housing, the prices go down. So my question is, with regard to the trust fund that we have proposed, in attempting to try to get support for that, because by creating, by using $2 billion a year out of the FHA reserves, we can create over 1.5 million new affordable housing units, and given the nature of our recession at this point, create thousands of jobs.

So why isn't this part of a homeownership strategy in terms of a full-fledged housing production program, when we have the resources to do that?

Secretary MARTINEZ. I think because we have a philosophical difference in whether the utilization of the FHA reserves is an appropriate pool of money from which to draw for this program. I think in a number of instances I have expressed my concern that the FHA reserve is for the soundness of the FHA program, which only a few years ago was in difficult financial circumstances and which, if there was to be an economic downturn and an excessive amount of foreclosures could again be in a difficult circumstance. So I believe that FHA, being kind of a cornerstone of bringing homeownership opportunities to poor and first-time homebuyers, that it is something that we should be very cautious in terms of utilizing their reserves.

Ms. LEE. Sure, Mr. Secretary, when we presented to you the information, in terms of the soundness of the fund and those of us who support a production program using these funds care about the safeness and soundness of the fund also. We have shown over

and over again that this would not be impacted the way you say it would be. So I urge you to look at that.

Ms. HARRIS. And also if you wish, any of these questions or further statements can be put forward in the record. Thank you.

Ms. Carson from Indiana.

Ms. CARSON. Thank you very much.

Mr. Secretary, again thank you so very much for your indulgence. I appreciate very much your being here today to support this initiative. Homeownership instills pride and stability and new families, fosters the creation of wealth and completes for many the picture of the American dream.

Let me, without sounding too skeptical, I come from Indianapolis, Indiana where the foreclosure rates remain unabated—6,000 homes foreclosed in the last year; bankruptcies at an all-time high; job loss, unemployment skyrocketing. While the free downpayment has some appeal, do you believe, Mr. Secretary, that it is ideal in these economic times of economic constraints where people can get the downpayment and then lose the home?

Secretary MARTINEZ. That certainly would not be the long-term goal.

Ms. CARSON. I know you do not plan to do that.

Secretary MARTINEZ. But I think that it is an ideal time because first of all we have historically low interest rates, and with that opportunity at hand, I think that it is a very opportune moment in which to do that. I think that this is a difficult economic moment, but I think as we look at all the different things that are being done to try to improve our economic condition, the president's proposals in that regard I think are designed to put more Americans back to work and to improve our economic condition. So I do not believe that this housing initiative should wait until things are perfect economically in every segment of the country because that may never be the case.

Ms. CARSON. Do you support the idea that is floating around Congress now of not foreclosing on people who are unemployed, through no fault of their own?

Secretary MARTINEZ. I am certainly in favor of the idea that foreclosures for our men and women in uniform who have been called to serve need to be stopped, and we have effectively done that through the Soldiers and Sailors Relief Act. In terms of broader policy in terms of foreclosure, I am not prepared to answer that because I have not studied all the implications of your question.

Ms. CARSON. Madam Chair, I yield back.

Ms. HARRIS. Thank you.

Mr. Capuano from Massachusetts.

Mr. CAPUANO. Thank you, Madam Chair.

Mr. Secretary, again, as everybody else, thank you for being here. I want to say just one thing about the program. I like the program. I like the concept. We will have disagreements—I do not think we are going to settle them here—as to how to fund it. I actually think it would be a great add-on. I am not so sure about a carve-out.

Secretary MARTINEZ. It is not a carve-out.

Mr. CAPUANO. I understand that at this point in time, but we will see how it happens as we go down the road. I understand that

may not be your preference, but it is the issue we have had in the past about it.

I really wanted to come today to underline an issue that I believe Mr. Frank brought up during his opening statement that I wanted to make sure came to your attention. It has only recently come to my attention in Massachusetts relative to new interpretations of Section 8 certificates and how they are put out there. I do not think this is the appropriate place to go through the details. We will be contacting you for a later time, but I just wanted to make sure that you understand that it is a serious problem. Many of us think that it is an unnecessary interpretation of current law and we look forward to working with you to try to get people into homes as we think the program was intended.

Secretary MARTINEZ. Thank you, sir.

Mr. CAPUANO. Thank you.

Secretary MARTINEZ. Ranking Member Frank did bring that up and we will be looking into it and be looking forward to responding to you and working with you on it.

Ms. WATERS. Madam Chair? I ask unanimous consent for 30 seconds to ask the Secretary a final question.

Ms. HARRIS. Yes, sure.

Ms. WATERS. What do we need to do to get CDBG and HOME and now this new program authorized? You know, none of this is authorized since 1993, 1994. There could be a point of order against this at any time on the floor.

Secretary MARTINEZ. Is that right? Well, I thought every year through the budget process that we got an authorization.

Ms. WATERS. No. This could go through the appropriations committee and there could be a point of order on the floor on any of this, including CDBG. Why don't we get some leadership to get this stuff authorized?

Secretary MARTINEZ. That is something—not being that familiar with all of your parliamentary intricacies, I was not aware of that and I am very concerned, now that you bring it up. So I will be giving that some thought and maybe get back to you.

Ms. WATERS. Thank you.

Secretary MARTINEZ. That is not a comforting thought.

Ms. WATERS. Thank you.

Ms. HARRIS. Thank you.

Mr. Secretary, thank you so much for your testimony today, for all of your help, for the great ideas, and we look forward to working with you and your staff in the future.

Secretary MARTINEZ. Thank you very much. It is a real honor to have an opportunity to not only testify before the committee, but to have it be chaired by you, my friend.

Ms. HARRIS. Thank you, Secretary.

And now we call the next panel.

Chairman NEY. [Presiding.] I want to thank the gentlelady from Florida for running the hearing. We will move on to panel two. The first witness is Robert Couch. He is the president and CEO of the New South Federal Savings Bank in Birmingham, Alabama. It is the largest thrift in Alabama. The bank is one of the area's leading mortgage lenders. Mr. Couch is testifying today on behalf of the Mortgage Bankers Association, whose 2,800 members include mort-

gage companies, brokers, commercial banks, thrifts, credit unions and life insurance companies. I want to welcome the witness.

Darrell Griffin is Chief of the Housing Services Division for the city of Jacksonville, Florida. The Housing Division is located within Jacksonville's Planning and Development Department and is focused on expanding the availability of affordable housing for very low-and moderate-income families by leveraging state and federal funds with local resources. Welcome.

Lori Gay is president of the Los Angeles Neighborhood Housing Services, a nonprofit lender, developer and neighbor revitalization corporation. Under her leadership, the corporation has developed and rehabilitated over 6,000 housing and commercial units and has educated and counseled 68,000 homebuyers. I want to welcome you to the capitol.

Paul Hilgers is the Director of the Neighborhood Housing and Community Development Department for the city of Austin, Texas, the Department which provides housing, community development and small business development services and is focused on expanding its partnerships with profit and nonprofit organizations in order to leverage all available resources. Welcome to the committee.

Craig Nickerson is Vice President for community development and lending at Freddie Mac, a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Mr. Nickerson has worked in the affordable housing area for more than 25 years, serving as the Executive Director of the city of Boston's Office of Housing and the National Director of Housing Rehabilitation at HUD. I want to welcome Mr. Nickerson.

And the last witness is Barbara Thompson. She is Executive Director of the National Council of State Housing Agencies, a national nonprofit organization representing housing financing agencies in all 50 states and committed to increasing the stock of affordable housing nationwide. Housing finance agencies issue tax exempt housing bonds, allocate the low-income housing tax credit, and administer home investment partnership funds. I want to welcome Ms. Thompson.

I want to thank the panel and we will begin with Robert Couch.

STATEMENT OF ROBERT M. COUCH, PRESIDENT AND CEO, NEW SOUTH FEDERAL SAVINGS BANK

Mr. COUCH. Good afternoon, Mr. Chairman and members of the subcommittee. My name is Rob Couch. I am president and CEO of New South Federal Savings Bank in Birmingham, Alabama. I am here today as chairman-elect of the Mortgage Bankers Association of America. MBA members have played a large role in the success of today's housing market. Our members, who number 2,600 nationwide, are involved in all aspects of real estate finance and constantly strive to develop policies and programs to enhance the sophisticated housing finance system the U.S. enjoys today.

Mr. Chairman, I am pleased to offer MBA's hearty support for H.R. 1276, the American Dream Downpayment Act of 2003, and to commend Representative Katherine Harris for her recent introduction of the bill. H.R. 1276 will make grants to communities that are

to be used only for downpayment assistance towards the purchase of single-family homes by low-income families who are first-time homebuyers. With this laudable goal, the American Dream Downpayment Act will help the homeownership rate keep growing. This program will help many more low-income Americans join the ranks of homeowners and it will help build communities. HUD estimates that 40,000 more families per year will be able to become homeowners under this program.

Mr. Chairman, understanding where people want to live and in what type of neighborhood is the first step in mapping the patterns of growth for America in the decade ahead. The federal government's role should be to encourage local communities to adopt long-term comprehensive plans that will meet the demand for homeownership and other housing needs. The American Dream downpayment program will be another tool in the arsenal of communities to assist potential homebuyers as there is still much work to be done. The American Dream Downpayment Act represents an investment in those who have yet to achieve the dream of homeownership. The federal resources used in fostering additional homeowners will be returned many times over as families build wealth and communities fill with residents who have a stake in their neighborhoods.

MBA believes offering downpayment assistance is the next logical step in reaching those who are not currently homeowners. The American Dream downpayment program will address one of the primary obstacles to homeownership for minorities and low-income families. That obstacle is the accumulation of funds to make a downpayment. By placing the downpayment program under the HUD HOME program umbrella, it is recognized that the strength of the HUD program lies in the fact that it empowers communities to identify needs in a locally created plan and then seek federal funds matched by local resources. One goal of the HOME program is to foster public-private partnerships, especially with lenders. In fact, HOME communities are strongly encouraged to engage lenders in local programs. The American Dream downpayment program will provide a perfect vehicle for engaging lenders. MBA was pleased to see funding for this program in the president's fiscal year 2004 budget as additional funding above the HOME program's regular funding.

Mr. Chairman and members of the subcommittee, MBA looks forward to working with you to make this program a success. Thank you for allowing me the opportunity to testify today.

[The prepared statement of Robert M. Couch can be found on page 59 in the appendix.]

Chairman NEY. And the next witness is Ms. Gay.

STATEMENT OF LORI R. GAY, EXECUTIVE DIRECTOR, LOS ANGELES NEIGHBORHOOD HOUSING SERVICES, LOS ANGELES, CALIFORNIA

Ms. GAY. Good afternoon, Subcommittee Chairman Ney and Ranking Member Waters. My name is Lori Gay and I am the president of the Los Angeles Neighborhood Housing Services, where I have worked for the past 13 years. We have been about the business of getting families into homes and keeping them in homes. I

am here this afternoon to talk with you about the benefits of downpayment assistance for low-to moderate-income families and to support H.R. 1276.

Let me first say a word about L.A. NHS. We have assisted more than 1.4 million families since 1984; developed and rehabilitated over 6,400 housing and commercial units; established 150 block clubs; and counseled over 72,000 homebuyers; employing over 200 neighborhood youth; and investing more than $1.1 billion back into some of L.A.'s most troubled neighborhoods. We are now the largest comprehensive provider of affordable homeownership in Southern California, putting 42 families a day on the road to homeownership.

We are a member of the Neighborhood Reinvestment Corporation's NeighborWorks Network. The Neighborhood Reinvestment Corporation strengthens communities and transforms lives across America by supporting innovative local partnerships of residents, business and government, collectively known as the NeighborWorks Network, and by advancing broader community development goals. In fiscal year 2002 alone, the NeighborWorks system generated nearly $1.7 billion of direct investment in more than 2,300 lower-income urban, suburban and rural communities nationwide. We assisted more than 35,000 lower-income families to purchase, improve and maintain their homes; provided pre-purchase and post-purchase homebuyer counseling to more than 72,000 families.

NeighborWorks organizations also owned and managed 34,000 rental units or mutual housing units. The corporation provided more than 188,000 contact hours for training participants and purchased more than $60 million in nonconventional loans through its affiliated secondary mortgage market operation. We also operate something called the Campaign for Homeownership Initiative. Since 1992, that campaign has assisted more than 60,000 low-to moderate-income families to purchase their homes, 52 percent of which are minority; 67 percent of which have been low-income.

Just a few quick stories about our Los Angeles experience, which I believe may be helpful to you as you consider this bill. We assisted Jae and Naomi Beck in Los Angeles, who happen to be Korean. They purchased a home, not with $5,000 of assistance, but with $75,000 of downpayment and closing cost assistance in conjunction with the city of Los Angeles and the Los Angeles Neighborhood Housing Services revolving loan fund. That family was able to purchase a home and only spend $68 more for their mortgage than they were spending on rent at the time. They were able to purchase and rehabilitate a home in neighborhood where the wife and the family had grown up. We see that every day. Similarly, the Espinoza family did not use government-assisted grants, but in fact the Sears Corporation provided $25,000 of downpayment assistance so that that family, who was living in a hotel at the time, operating off of a hot plate to eat, had never had a Thanksgiving. They were able to purchase a home last December with the $25,000 in downpayment assistance.

So what we have seen locally is that in fact the private and public sector cooperation really makes the difference, and in fact, Congresswoman Waters, it does take this layering that you mentioned

and a comprehensive approach to affordable homeownership to make it happen. We believe the $5,000 of assistance that is projected per family will be of great assistance. It just won't be the only assistance needed in high-rent districts like Los Angeles or California statewide. We have ongoing issues which do require more subsidy.

What I would also like to note is that we estimate that our national network will utilize about $10 billion in downpayment assistance funds next year alone. So we see this critical funding as essential to get the work done. We also feel it is our job and duty to protect and serve families throughout our communities by ensuring that sub-prime lending does not increase and that in fact if we are able to conventionalize families, wherever appropriate we should do that. Sub-prime lending and predatory lending are not the same thing, but in fact we have found that we have to look out for our families, financially educate them, and spend time making sure that they have the proper hand-holding to be successful.

I would like to thank this committee for the opportunity to speak today about our work and the broader NeighborWorks network. The addition of a national downpayment assistance pool will greatly assist our work, but we do not want to just create more homeowners. We also want to make sure that they are financially educated and that they have sound mechanisms to build their wealth and transfer these intergenerational assets to their children over time.

Thank you.

[The prepared statement of Lori R. Gay can be found on page 63 in the appendix.]

Chairman NEY. I want to thank the witness for her testimony. Without objection, your written statements will be made part of the record. Of course, each of you will be recognized for a five-minute summary of your testimony. Hearing no objection, any written statements you have will be made part of the record. I also ask for unanimous consent to be given to allow the Consumer Mortgage Coalition to be able to submit testimony for the hearing record in support of the American Dream Downpayment Act. Hearing no objection, it will be part of the record.

[The following information can be found on page 102 in the appendix.]

Mr. Griffin?

STATEMENT OF DARRELL V. GRIFFIN, SR., DIVISION CHIEF, HOUSING SERVICES DIVISION, CITY OF JACKSONVILLE, FLORIDA

Mr. GRIFFIN. Good afternoon, Mr. Chairman and members of the subcommittee. My name is Darrell Griffin and I am the division chief with the city of Jacksonville's Planning and Development Department. I bring you greetings from Mayor John Delaney and Jeannie Fewell, who I am sitting on behalf of. She had a death in the family and was not able to speak, so I am sitting on her behalf. I am here today speaking in support of the proposed legislation, H.R. 1276.

Before telling you about our fantastic homeownership programs we administer in the city of Jacksonville, allow me an opportunity

to provide you with some demographic data about our city, which is located in southeast Florida. Jacksonville is approximately 840 square miles of land mass, with a population of 807,000 people. According to the 2000 census, Jacksonville's racial composition is as follows: 65.8 percent white; 27.8 percent black; 4 percent Hispanic; and 2.4 percent categorized as other. There are 303,000 households in Duval County, of which 63 percent are owner-occupied. Of those owner-occupants, 76 percent are owned by whites; 19 percent by blacks; 3 percent by Hispanic; and 4 percent are other nationalities. In Jacksonville, the area median income for a family of four is $55,400.

The city of Jacksonville Planning and Development Department Housing Services Division's strategy to provide affordable housing is to encourage public and private partnerships to stimulate construction and reconstruction of residential properties, to increase and improve the supply of affordable housing. The Planning and Development Department administers several homeownership programs which are designed to encourage homeownership and make the purchase of a home possible for low-to moderate-income residents who are 80 percent of the median income and below. The city of Jacksonville anticipates allocating from its 2004 funding $1 million of its $3.8 million in home investment partnership program funds to our award-winning downpayment assistance program called the Headstart to Home Ownership or H2H program, and the new program, Home Purchase and Rehabilitation, affectionately called HOME-PAR. The H2H program has twice been awarded the Department of Housing and Urban Development's prestigious Best Practice Award.

The H2H program targets qualified applicants whose income is 80 percent of the median income. H2H offers finance assistance up to $14,999 to provide downpayment and closing costs and principal reduction assistance to eligible families and individuals who currently do not own a home, but wish to purchase a home as their primary residence. Prospective homeowners may purchase any single-family housing unit, newly built or existing, including patio homes, townhomes or condominiums, located within the consolidated city of Jacksonville. In addition to meeting the income criteria, the applicant must have a minimum downpayment of $500.

The maximum purchase price for one family unit for Duval County as of February, 2003 is $154,600. That is the maximum allowed under HOME in our area. Local lenders provide first mortgages for the purchase of the property. The lender will offer their funding at par market rate, without origination of discount points, and a 30-year fixed rate conventional loans and FHA-insured loans at a maximum loan-to-value of 97 percent. The city of Jacksonville will provide a subsidy in the form of downpayment and closing costs and principal reduction for the eligible persons. The amount of financial subsidies received will be based on the total household size and income. The city's financial assistance will be in the form of a second mortgage at zero percent interest and forgiven after five years, with repayment of the subsidy deferred to the end of that five-year term. All homes sold under the H2H program are inspected by licensed home inspection companies and must be in

compliance with the Section 8 housing quality standards prior to closing.

The goal of the HOME-PAR program, which is our second program, is to encourage and support homeownership and revitalization within the Mayor's intensive care neighborhoods and target areas in which adopted neighborhood action plans have been implemented. Implemented in March, 2003, the HOME-PAR program offers financial assistance up to $25,000 to families and individuals with 80 percent of the median income who wish to acquire and rehabilitate sub-standard homes which after rehabilitation will become their primary residence. Like the H2H program, the city's subsidy may be used for downpayment and closing costs and principal reduction.

In addition, funding may be used to provide gap financing when the cost to acquire and renovate the home exceeds the after-rehab appraised value. The applicant has a minimum downpayment of $500 and again, the lender will provide 97 percent loan-to-value. The city subsidy will be in the form of a second mortgage, not to exceed 120 percent loan-to-value.

Chairman NEY. Excuse me, sorry to interrupt, but the time has expired. If you would like to conclude, and then we can accept the rest written for the record.

Mr. GRIFFIN. Yes, I would like to. Homeownership is the largest and in many cases the only source of wealth-building for most families and individuals, especially to the prospective homebuyers we target at 80 percent of the median income and below. Successful revitalization of Jacksonville's intensive care neighborhoods and neighborhood action plan areas demonstrate that public funding delivered to homeownership in neighborhoods as part of a well-organized reinvestment strategy can leverage private financing and other valuable resources to produce lasting benefits, physical, economic and social. However, it is imperative to continue Federal and State funding to sustain a base of capital investment and program delivery to ensure the continued success of these programs and initiatives.

[The prepared statement of Darrell V. Griffin Sr. can be found on page 73 in the appendix.]

Chairman NEY. Thank you.

Mr. Hilgers?

STATEMENT OF PAUL HILGERS, DIRECTOR, NEIGHBORHOOD HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT, CITY OF AUSTIN, TEXAS

Mr. HILGERS. Thank you very much, Mr. Chairman and members of the subcommittee.

My name is Paul Hilgers, and I am the Director of the Department of Neighborhood Housing and Community Development for the city of Austin, Texas. I am honored to have the opportunity to testify before you today regarding H.R. 1276, the American Dream Downpayment Act. Being from Texas, I am particularly honored to be here in the shadow of the picture of former Chairman Henry B. Gonzalez. I had to mention that.

My testimony today is to summarize the written testimony provided to you, and I appreciate your accepting that. It provides an

overview of our locally developed comprehensive housing investment strategy, and how using the tool of downpayment assistance as one element in that strategy has improved our ability to assist low-and moderate-income families in becoming homebuyers, many for the first time.

The written testimony describes in a little more detail the city of Austin's housing continuum, which is an investment strategy which allows for collaborations and partnerships, the SMART housing program, which is a locally designed program designed to eliminate regulatory barriers to housing production; how the city of Austin has increased its investments from local general fund revenue; and the creation of our Austin Housing Finance Agency. All of those initiatives have created a toolbox to address the needs of all levels of our housing continuum.

In Austin, we also believe that homeownership is an integral part of the American Dream that is out of reach for many low-income families because of the high cost of single-family, owner-occupied housing. H.R. 1276 is a step in the right direction to address this reality. It is a step in the right direction because it provides the additional resources for cities like Austin to provide downpayment assistance to families to purchase a home. Oftentimes, this is the major barrier to families owning their first home. I support the $200 million in funding requested in H.R. 1276, and it is important that this legislation add $200 million to the HOME program and that it is not a set-aside. I cannot express enough the importance of the HOME program to my city and others in providing the flexibility and resources to fill the gaps in funding for our downpayment assistance program and other affordable housing initiatives.

I believe strongly in the delivery system established by the Community Development Block Grant and HOME programs. These programs allow local governments to design the kind of innovative programs you have heard about today, and to make local decisions about how the funds should be used to impact the most significant needs within their communities.

The city of Austin's downpayment assistance program is designed to meet its economic realities. It provides deferred zero interest loans to assist with downpayment assistance and closing costs. The loan is non-amortized, non-assumable, non-interest-bearing, and secured by a lien on the property. The loan is repaid at the time the owner sells the home, refinances, pulls equity from the property, transfers title or moves out of the property. Repaid funds are used to help future homebuyers in the program. H.R. 1276 would help the city provide more resources to assist families with their downpayment assistance needs through this highly successful program. In the past five months, an average of five families a week have become homeowners through our program. In the past three years, we have helped 619 households through our downpayment assistance programs.

Briefly, by way of recommended improvements for the committee to consider, I would recommend that H.R. 1276 be expanded to include pre-purchase counseling. That issue has been discussed here today, and if we could establish 10 percent as an amount of funds available to local communities to be able to use those funds for pre-

purchase counseling to ensure that they fully understand every aspect of the process and what it means to maintain homeownership. H.R. 1276 could also be amended to allow up to 10 percent for administrative costs. To ask HOME staff and administrative cost limits to absorb the new effort may under cut its success. I also respectfully request the subcommittee to examine the current Uniform Relocation Act provisions and the potential disincentive to first-time homebuyers since they are triggered with the very minimal amount of homebuyer assistance that could be possible through this program.

Finally, I support the legislation because it brings attention to the need for affordable housing assistance, even if it is just the downpayment assistance component. Federal leadership is needed badly for us at the local level trying to implement these programs. I would urge you, Mr. Chairman, and other members of the subcommittee to continue to pursue affordable housing assistance in other areas, such as providing additional funding to HOME for housing production and the other activities that come before this committee.

I thank you again for the opportunity to testify.

[The prepared statement of Paul Hilgers can be found on page 77 in the appendix.]

Chairman NEY. I thank the witness and appreciate your coming from Austin, and also recognizing Congressman Gonzalez. I had the pleasure of serving a couple of years when he was here, and also one of your other former residents actually has moved down the street a couple of years ago to a little bigger house.

Mr. HILGERS. Yes, I understand that. Thank you, sir.

Chairman NEY. Mr. Nickerson?

STATEMENT OF CRAIG S. NICKERSON, VICE PRESIDENT, COMMUNITY DEVELOPMENT AND LENDING, FREDDIE MAC, WASHINGTON, DC

Mr. NICKERSON. Good afternoon, Chairman Ney and Ranking Member Waters, and Congresswoman Harris and members of the subcommittee. I am delighted to be here on behalf of Freddie Mac. My name is Craig Nickerson. I am Vice President of Community Development lending at Freddie Mac.

This is a matter that I take a genuine interest in. It is part of what I have been doing for actually over 30 years now. I think your bio said 25. It is either an old bio or I am just getting older, or both. This is also, though, an issue that is very important to Freddie Mac. It is what we do. We are a shareholder-owned corporation chartered by Congress back in 1970, designed to create a continuous stable flow of capital back to the local markets. By purchasing mortgages from lenders, we increase market liquidity. The result of that is interest rates are lower, mortgage money is more plentiful. It allows us to create more flexible products, including products that can be offered on very low downpayments, and has in part been one of the reasons we have such a high homeownership rate in America.

More needs to be done. More needs to be done by Freddie Mac and by the entire industry. The gap between the overall homeownership rate or the white homeownership rate and minority

homeownership rates is unacceptable. We need to do more. That difference is not just a function of demographics or income levels. Even if you separate out for lower incomes, or for example the age of households being younger, that difference cannot be explained away. We need to be doing more to increase homeownership opportunity for minority families.

Part of that is a lack of an ability to save, when you are focused on meeting life's necessities. Part of it is the lack of intergenerational—parents providing capital so someone can buy their own home as a young family. Homeownership is much more than what we have discussed today. It is much more than just a very vital means of stabilizing communities, a means of creating family security and a sense of well-being. As indicated earlier by both Chairman Ney and Ranking Member Waters, it is also a very important means of accruing wealth in America. It is the most important means of accruing wealth. Let me cite just one statistic to underscore that. Case in point: the median wealth of low-income and minority homeowners in America right now as of 2001 was $70,000. That is the net wealth. The low-income median wealth for low-income renters, $900—$70,000; $900. We simply need to be focused more on this issue.

For our part, what is Freddie Mac doing? Well, we are doing a number of things. Last year, we created something called Catch the Dream. We are very proud of it. It is a very comprehensive new approach to try to meet specifically the needs of minority homebuyers in America. We are focused on mortgage products, certainly—flexible mortgage products—but also on more innovative ways of reaching out to the community, meeting their needs; not waiting for them to come to us. We are focused on financial literacy and better educational tools, and we are focused on using technology in creative new ways.

But despite how proud we are of Catch the Dream and our efforts to support the Administration's blueprint for the American Dream, we know much more needs to be done. We do believe the American Dream Downpayment fund is a very important shot in the arm for the industry and its entire effort. Let me suggest just three brief reasons why we think this new fund can add significant value. First, it does in fact address one of the key barriers to homeownership—the lack of cash for downpayment and closing costs. That is both a real problem and a psychological problem. To the extent families save a few dimes, a few dollars every week, it is a daunting challenge to invest those hard-earned funds in downpayment and closing costs and not have any safety net after you are done making that investment for that rainy day, for that time when you need some extra capital. The Wharton school has recently indicated that notwithstanding high housing costs in many markets, that the downpayment is three times more constraining than the monthly mortgage payment as a barrier to homeownership.

The second reason we think this is a good idea is that this program can be implemented quickly. The American Dream downpayment fund, because it is part of the HOME program, will allow these participating jurisdictions to implement without having to understand new regulations and adopt them. Having worked at the

local level and at the federal level, I know from experience that it takes years to adapt and develop and understand new program regulations. Even the HOME program back in the early 1990s, it took years before we saw any significant volume. Given the design of this fund, making it a part of the HOME program, ensures flexibility, but also an understanding so that we can adopt the program quickly.

And then lastly, this program provides focus. Because it is focused explicitly on first-time homebuyers and those with incomes below 80 percent of median income, we think it is targeted to the very constituency that needs the money the most.

So in conclusion, let me suggest that Freddie Mac does support the American Dream downpayment fund. We think it is a very important new tool in our homebuyers assistance tool kit that will help revitalize more communities; help lenders leverage their dollars; and most importantly, put more underserved families and minority families on the path to homeownership.

Thank you.

[The prepared statement of Craig S. Nickerson can be found on page 88 in the appendix.]

Chairman NEY. Thank you.

Ms. Thompson?

STATEMENT OF BARBARA THOMPSON, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Ms. THOMPSON. Chairman Ney, Ranking Member Waters, Congresswoman Harris, thank you for having me here today and good afternoon to you.

I am Barbara Thompson, Executive Director of the National Council of State Housing Agencies. CSHA represents the Nation's State housing finance agencies. State HFAs issue tax-exempt bonds, allocate the low-income housing tax credit, and administer HOME funds in nearly every state. Every year, they help tens of thousands of lower-income families buy their first homes.

NCSHA is very grateful to the Congress and to the Administration for your support of affordable homeownership. We agree more must be done to expand homeownership, particularly among low-income and minority families. In this spirit, we support the goals of the Administration's homeownership agenda. However, we do not support the creation of the American Dream Downpayment Initiative within HOME. State HFAs are devoted to making low-income families homebuyers. Essential to their efforts is the mortgage revenue bond program. State HFAs have issued $170 billion in MRBs to finance 2.3 million below-market rate mortgages for lower-income families. Each year, they help another 100,000 low-income families become homebuyers.

In addition to using MRBs to reduce monthly costs, HFAs also use MRBs to overcome the downpayment hurdle that many low-income families face. State HFAs also provide many other forms of downpayment and closing costs assistance, soft second mortgages, lease-to-own options, acquisition, rehab and construction financing, and homebuyer education and counseling. They do these things to help families not only attain, but to sustain homeownership. HFAs use many resources to finance these activities. One of the very

most important is the HOME program. NCSHA is grateful for Congress' support of MRBs and HOME and other resources upon which they rely to provide homeownership help. Congress has steadily, though modestly, increased HOME funding. It recently increased by half the bond cap.

The most significant step Congress could take to expand low-income homeownership is to repeal the 10-year rule and update MRB purchase price limits. The 10-year rule costs states $3 billion in mortgage money annually. Ohio loses $450,000 a day; California, $1 million. Eighty-two percent of the Congress cosponsored the bill that contains these changes last year. This year, it is H.R. 284. We urge you to cosponsor this bill. We thank you, Mr. Chairman, for your early cosponsorship. We urge you all to cosponsor and help enact it this year.

NCSHA does not support a separate homeownership program within HOME. Congress designed HOME as a block grant to allow States and localities, not Washington, to decide how to best meet their needs. Allocating funding within HOME for a single Washington-prescribed purpose irrespective of state and local judgment of need is contrary to the purpose and spirit of HOME. States already can and do use HOME funds to support homeownership. In fact, they have used HOME funds to support 40 percent of all HOME-assisted units. Congress does not need to create a separate pot of money within HOME to help more families become homeowners through HOME. It need only increase HOME funding. This subcommittee could help most by substantially increasing the authorization for HOME and working with appropriators to assure its increased funding. HOME just finally achieved in fiscal year 2003 funding equal to its 1990 authorization level of $2 billion.

Some argue the proposed $200 million for the downpayment program is new money—funding that Congress would not otherwise allocate to HOME. We believe a dollar available for downpayment is a dollar that Congress could invest in HOME without restriction. We are also deeply concerned Congress would fund the downpayment program this year or in future years within HOME's current or even a reduced HOME appropriation. The subcommittee tried and we appreciate your efforts to protect against this outcome last year in H.R. 3995, but with all due respect, the language you wrote would not have prevented appropriators from reducing state and local HOME funding or foregoing HOME funding increases to finance the downpayment program.

If you authorize downpayment assistance within HOME, we urge you to direct HUD to base funding allocations on need, and not also on a jurisdiction's prior homebuyer commitments. Why should jurisdictions that directed scarce housing dollars to meet other affordable housing needs they judged more urgent be penalized under this program?

We urge you to reject the downpayment set-aside. We encourage you to work instead to enact other initiatives that would have a much greater impact on low-income homeownership without threatening the very successful HOME program.

Thank you.

[The prepared statement of Barbara Thompson can be found on page 93 in the appendix.]

Chairman NEY. I want to thank the witness. I also want to note Mr. Couch has a commitment which he will have to be excused to leave. If there are any questions of Mr. Couch, they can be put in writing and you could respond, if you so wish.

Mr. COUCH. I would be glad to do that, Mr. Chairman.

Chairman NEY. Thank you.

Mr. COUCH. Or I can respond now. I have got a few minutes.

Chairman NEY. I know you have got——

Mr. COUCH. I appreciate the indulgence.

Chairman NEY. You can go ahead and go. Thank you.

Mr. COUCH. Thank you.

Chairman NEY. I appreciate it.

I have got a question, but before I ask the question, I have been talking with Ms. Waters, the ranking member, and I think we ought to explore about some cases of no-downpayment. I think that it is worth exploring. We were just having some talk about it, and I would like to see if we could work on that.

The question I have, first of all, I wanted to ask Ms. Thompson, because I talked to OHFA today, Ohio Housing Finance Agency. Actually, I called them and then they called me back and they asked me the question, would they be able to administer the fund for the American Dream. Do you have any comment?

Ms. THOMPSON. Well, it is up to the Governor of each State as to what agency administers the HOME program. I would assume the way you would write this bill would be to allow that discretion. I would assume most Governors would choose the HOME administrating agency, which in the case of Ohio is not the HFA, but obviously the Governor I would assume, Mr. Chairman, could change that.

Chairman NEY. The Governor could change that.

Ms. THOMPSON. Yes.

Chairman NEY. The other thing I wanted to ask you is, you know, you have the worry about detracting from the HOME program.

Ms. THOMPSON. A serious worry, yes.

Chairman NEY. But the Secretary did testify earlier, it is new money. That still gives you heartburn?

Ms. THOMPSON. Mr. Chairman, with all due respect to the Secretary and to you, you have no control over what the appropriators finally do on this. The Administration itself, as you know, just three years ago——

Chairman NEY. Not to interrupt, but we deal with that in every case.

Ms. THOMPSON. I know you do. But if I could just say this, when they first proposed this program, this $200 million in the fiscal year 2002 budget, they did propose it as a set-aside within the current HOME appropriation. They moved away from that because of opposition, frankly, to that approach from our group and others. I would ask you, how would you control the appropriators from doing just that, in this very tight budget environment, from taking flexible State and local money to fund this program? They managed to come up with $75 million, not $200 million last year, without doing that. But would they be able to do that in this budget environment this year? Who knows? We are rolling the dice.

I would also suggest to you that it is not just a matter of setting aside existing State and local HOME funding. This is a program, HOME, that is enormously successful and that needs more funding. Therefore, we would argue any dollar that you put into this new program, which in our view is not necessary because you can do downpayment now with HOME, any dollar you put into that is a flexible dollar that you deny states and localities.

Mr. Chairman, as important as homeownership is, what if a community judges that they desperately need a transitional housing property for homeless people? What if they judge they desperately need a low-income rental property? You are taking away that choice by forcing them to use it for homeownership assistance, whether that is their priority need or not.

Chairman NEY. Thank you.

A question I have for Ms. Gay, I fully understand that the needs of the residents of Los Angeles are very, very different than other markets and very different than the area that I have. So what type of local flexibility do you think you would need in a national downpayment assistance program, due to the situation of the higher prices, et cetera?

Ms. GAY. If you added the money to our locale, I think that what it would do is leverage the number of buyers potentially that could be assisted. If it is a flexible dollar, as was noted by Ms. Thompson, the only concern someone like me would have is that it might get used for things other than homeownership, and we are trying to increase the number of minorities and low-income families who participate in our city in the homeownership dream. So if you said to our city through this bill in some way that they had another $50 million a year to spend, just a nice fat number, I think that that would add another 3,000 or 4,000 people, and that is the way we would look at it.

Chairman NEY. Anybody generically might want to answer this from the panel. What type of outreach programs do you think would have to be put in place or enhanced, to let people know about the downpayment assistance programs? Any thoughts on that?

Ms. THOMPSON. Mr. Chairman, I would say that that is in place. It is amazing what states and localities and their nonprofit partners are already doing in this area. The issue is not the need for a new apparatus, for a new program. The issue is resources.

Chairman NEY. But my question I am trying to focus on—I appreciate that, but I am trying to focus on, let's say that this passes today, hypothetically, are there additional things we need to do on outreach for American Dream? Mr. Nickerson or Ms. Gay?

Ms. GAY. I was going to say, Mr. Chairman, that one of the pieces of the story I did not give on the Becks was that word-of-mouth referrals tend to work almost best in our communities. We had 3,200 Korean families walk into our offices in two weeks when the Becks went on television for 60 seconds. So the kind of outreach mechanisms that are available through many community partners I think will get the word out, if people know that they really have a chance. That is the issue—do I really have a chance to buy the home, or is it a gimmick? If we can get a message out

that entrusts people into this game, that in fact they think they can really participate, we will be successful.

Chairman NEY. My time has expired. I appreciate your answer. I also want to note that just about a week ago, somebody happened to be down by our district office in St. Clairsville, and was walking by and said hello. I said, What are you doing? He said, I am going down to look at a house. I said, Is it your first home for you and your wife? He said yes. I said, Have you called FirstTime home-buyers? And he said, What is that?

You know, it is very interesting that a lot of people do not know about it, so I think word-of-mouth would help, but I also want to be sensitive to the fact that if we have another program, to make sure that the outreach mechanisms are also there advertisement-wise or financial institutions, whoever is involved.

Ranking member, Ms. Waters?

Ms. WATERS. Thank you very much, Mr. Chairman.

As you know, my initial concern has been duplication of effort under a new name and wondering why. Let me just ask, even though the Secretary said that the local jurisdictions could decide how much money they spend on downpayment, even though it seems as if $5,000 is some kind of amount that has been used in the past and may be something that is being suggested. How many jurisdictions would spend $25,000 instead of $5,000?

Mr. GRIFFIN. In Jacksonville, our objective not only is for home-ownership, but also neighborhood revitalization. At times, you are going to need more than just $5,000 toward downpayment. I did not get a chance to finish my presentation, but oftentimes, especially in acquisition and rehabilitation programs, the costs to acquire and rehabilitate the home exceeds the appraised value. Therefore, there has to be some type of entity, and generally it is the city or some funding agency, that would bridge that gap. In other words, if you acquire a home for $20,000, renovate it for $50,000; $70,000 is what you have, but it may only appraise at $60,000. So we have to bridge that gap. That is called a development subsidy.

In addition to that, we also may have to bridge what we call an affordability gap. Using those same numbers, the applicant may only qualify for $50,000. So that is another $10,000 in subsidies. So you combine the two, and you have $20,000. So there it is very likely, especially in our city and in the areas that we service, that you will exceed that $5,000.

Ms. WATERS. What about Los Angeles, Ms. Gay?

Ms. GAY. I think the $75 million is the number that we have been able to get through our council. All I keep hearing, we have created our own housing trust fund now at $100 million a year. We have been saying, just get us more resources—an increased HOME allocation. If you target it, I do not know that advocates would be against that. The issue just becomes, we are going to cap the amount at some point and $75 million is the number that I have been told by every council member is as far as they think they will go.

Mr. HILGERS. In Austin, what we would do is add the $5,000 to a layering strategy, if it was $5,000, to add to additional HOME dollars, additional mortgage credit certificates and whatever other

creative financing mechanism we could add to it. We also, when it comes to larger subsidies for mortgage write-down, our concern at the local level is the ability for that family to stay in the home. So we do that kind of mortgage write-down through our community housing development organization, so that our nonprofits are able to work with the families on a longer-term basis so that we are more confident that they would be able to maintain that home.

So the general public who is looking for homes at the more moderate income levels, the idea of our structure is to invest in those people according to their need. If all they need is $3,000 to $5,000 or $5,000 to $10,000—whatever that might be—then that could be available to them. Our problem has been the production side, there has not been housing available in the last few years to meet the demand. So we have to attack it on all of those different levels, but specifically if we could have an extra $5,000 from this program, then it would free up $5,000 from our HOME allocation, not to argue against the perfect, which would be an increased HOME allocation.

Mr. NICKERSON. I think the key here, congresswoman, is that that discretion is available to the locality or the state that is receiving the money. So in Los Angeles, your elected officials within the city and the Los Angeles Housing Department could determine whether it is $1,000, $5,000, or in your instance many times more than that, given the high cost of housing in the city. That local discretion is essential, rather than it being prescribed by HUD or by Congress.

Ms. WATERS. Ms. Thompson?

Ms. THOMPSON. First of all, it would be very important to assure that the legislation was written in a way that HUD knew it could not put artificial limits, as it so frequently does on programs, to have the kind of flexibility that Craig is describing. In addition, I agree with the city of Austin that that is not going to be enough to make homeownership happen in very high-priced housing markets. You are going to need to layer with other things. In fact, I would argue one of the beautiful things about the existing HOME program, and not this separate set-aside or separate program, whatever we are calling it, is that you can do all kinds of things—soft second mortgages, closing costs; you can layer that with MRB financing. Whereas I guess we are just talking about downpayment assistance, which is not going to solve the whole problem, and certainly not in your district.

Ms. WATERS. Thank you very much.

Chairman NEY. Thank you.

The gentlelady from Florida?

Ms. HARRIS. Thank you, Mr. Chairman.

I suppose in closing, since we are the last ones, I just wanted to thank the panelists for traveling so far and giving so much pertinent information. I love to hear the success stories. It is really encouraging. It makes me feel like we are on the right track with this. I think if you just look at what we have said before—the dignity, the stability, the economic empowerment, the wealth creation that homeownership creates is a goal that we should all strive for. In this unique economic environment, with low interest rates, if we have a chance for this augmentation of funds, if we can infuse

more with the prioritization of purchase of those first homes for low-income buyers, I think it is going to be an extraordinary opportunity, not only for tens of thousands that we are projecting in this bill, but as the president has advocated, millions.

So if we can truly get focused in that arena, I think that is very vital, and that we do not just get bogged down in the lack of perfection, but let's focus on how we can really make some good things happen with this. There are opportunities from what we have heard today. I concur that I do want to see that the past effort's issues are evaluated, because so many local, private and State groups may be focused on that. But the issue of homeownership is still there, and really vital and makes such a dramatic difference from educational levels, lifestyles, quality of life and issues for the rest of the people's lives that it affects.

So I just want to thank you all for your input, for your interest, and for being here today. Thank you.

Chairman NEY. Thank you.

Any further questions of the witnesses? I want to thank you for a very important hearing. We appreciate you coming to the Capitol. Thank you.

Also, without objection, the opening statement of—I defer to the ranking member.

Ms. WATERS. I ask unanimous consent to submit my opening statement to the record.

Chairman NEY. Without objection.

The chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, our hearing record will remain open for 30 days for members to submit written questions to these witnesses and place their response in the record.

This hearing is adjourned.

[Whereupon, at 4:35 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 8, 2003

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
"Promoting the American Dream of Homeownership through Downpayment Assistance"

Tuesday, April 8, 2003

Today, we are here to discuss the Administration's proposed American Dream Downpayment Initiative, and legislation introduced by Representatives Harris and Rogers that would implement the program.

As part of President Bush's initiative to encourage homeownership, particularly among minority populations, the American Dream Downpayment Initiative will help more Americans buy their first homes. In addition to the tremendous benefit and sense of satisfaction thousands of families will have by owning their own homes, this legislation will also strengthen communities by increasing the number of stakeholders in neighborhoods across the country. In fact, this initiative will help over 40,000 families become first-time homeowners. This bill was carefully crafted to assist local governments with downpayment assistance while preserving flexibility to be responsive to the needs of their communities.

Many state and local governments currently have downpayment assistance programs that utilize federally funded social service programs, but the extent of their involvement and their ability to fulfill their mission will be enhanced by the American Dream Downpayment Initiative. We should do everything we can to help close the gap between minority and non-minority homeownership, especially because the downpayment is one of the most significant barriers to homeownership. There are many hard working, low-income families who would greatly benefit from the wealth-building opportunity that homeownership can afford.

Many of our witnesses today are part of the local communities that assist low-income families with the home-buying process. We are anxious to hear from you today on how best to assist you in addressing those needs. I am also looking forward to hearing from Secretary Martinez and the other witnesses to gain their perspective on the American Dream Downpayment Initiative. I'd like to thank Katherine Harris and Mike Rogers for their hard work on this legislation and look forward to the testimony.

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Opening Statement
Congresswoman Julia Carson (IN-7)
American Dream Downpayment Hearing
April 8, 2003

I appreciate the distinguished panel of experts who have been called today to testify to this new initiative.

Homeownership instills pride and stability in new families, fosters the creation of wealth, and completes for many the picture of the American dream.

Many members of this committee, on both sides of the aisle, myself included, have worked consistently to authorize funding for housing and community development grants at the highest possible levels, to provide housing opportunities to hard-working families who would not otherwise have them.

While downpayment assistance can be characterized as a wonderful tentative first step, it will not solve the affordable housing crisis in my community or anywhere else in this country.

My staff recently toured a neighborhood in Indianapolis with an advocacy group called Organization for a New Eastside. This is a neighborhood where 6 out of 10 houses on any given block are vacant and in disrepair. Getting families into these houses is not as much of a problem as keeping them in seems to be.

We have a serious foreclosure problem that disproportionately affects minority families, the very same families the administration is attempting to help with this bill. Foreclosure rates in Indiana, which led the nation in the third quarter, continued to outpace other states in the fourth quarter of 2002. During the period, Indiana hit a record with 2.41 percent of all home loans ending in foreclosure, according to the Mortgage Bankers Association of America. Indiana's fourth-quarter rate more than doubled the national average of 1.18 percent.

My position is that any measure considered by this committee that would invest millions in homeownership opportunities for low-income families must include thoughtful and aggressive measures to prevent foreclosures. I hope the sponsors of this bill will be amenable to such suggestions.

It is clear this country is in desperate need of a comprehensive housing agenda that facilitates massive new homeownership, while maintaining a commitment to non-homeowners by improving public housing and providing more choices for those living in assisted housing. I applauded the hard work of the committee and it's staff under the leadership of Congresswoman Roukema in the 107th Congress for making an attempt at a comprehensive housing agenda with the Housing Affordability for America Act. I was sorry to see that legislation derailed. Soon, I will be introducing a bill called the Bringing America Home Act, which will address problems faced by families that are homeless or

on the verge of homelessness. The bill is based on the research, data, and the experience of front line providers and advocates. I trust I will be able to work with Secretary Martinez and the Department of HUD in a spirit of good-will, as the Secretary often makes the point that housing is a non-partisan issue.

America has been blessed with incredible wealth and resources. There are no excuses for permitting families to live in sub-standard housing, or to be homeless.

STATEMENT OF THE HONORABLE WM. LACY CLAY

Before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

"Promoting the American Dream of Homeownership through Down payment Assistance"

April 8, 2003

Good afternoon, Mr. Chairman, Representative Waters and Members of the Committee. This can be the beginning of a wonderful opportunity for low income individuals and families seeking to buy a home.

Mr. Chairman, I support the idea that of assisting these potential home buyers with down payment and or closing costs monies. Indeed, it is these up-front costs that many find too difficult to save, thereby, preventing them from entering the home buying market. The American Dream Down payment Act is designed in principle to eliminate many of the out-of-pocket worries associated with the purchase of a home by low income and minority families. The Act is created as part of HUD's HOME Investment Partnership Program that helps communities to increase the availability of affordable housing for low and moderate income families. The home program is subsidized through entitlement grants.

There are pluses to the HOME program in that individuals and organizations are familiar with the requirements for funding under this program. Theoretically, because the program is understood already, the resources will be quickly available to the participants. Additionally, it is felt by many that adjustments and improvements have been made to the HOME program during its existence to allow for a smooth transition of the American Dream of Homeownership through Down payment Assistance program.

Mr. Chairman, this would be a wonderful program were new monies appropriated to facilitate its operation. Unfortunately, other workable, effective programs have been left unfunded to allow for funds to be diverted to "The American Dream of Homeownership through Down payment Assistance. It gains the nation nothing to leave unfunded working, needed programs even if the replacement programs do work to some extent.

Housing is an area of concern that requires the efficient functioning of several programs that have different areas of focus. Housing needs more money appropriated, not working programs left unfunded soas to allow new programs funding.

Mr. Chairman, let us not kill working solutions just to change the name on the solutions. I ask unanimous consent to enter my statement into the record.

Congresswoman Barbara Lee
Statement on the Harris' American Dream Downpayment Assistance Bill
April 8, 2003

Thank you Chairman Ney and Ranking member Waters for convening this hearing on H.R. 1276. The dream of homeownership is just a dream for many Americans, especially minorities. As Congress moves to make the American dream a reality, we must face the real challenges of homeownship.

Downpayment assistance is just a piece in the home purchase puzzle; in this country there is little to no affordable housing and further no commitment from the Administration to establish a national housing construction production program. Foreclosures continue to rise but Congress has failed to fully fund financial literacy programs and combat predatory lenders. These are all parts of America's homeownership nightmare and they must not be ignored.

It will take education and outreach to provide people, especially in communities of color, the tools to acquire homes, which of course leads to building equity and wealth. I know in my district in Oakland, California our average single family home costs upward of $400,000. So how will the Administration, HUD, and Congress help the families who get the home, and

can't afford to keep the home? How do you extend $5,000 to a family that earns $50,000 and tell them that a gift of $5,000 is the answer to their affordable housing challenges?

Congresswoman Harris' legislation raises a big red flags for me. The President's budget is a meager attempt at fully funding good housing programs and homeownership initiatives. Congress appropriated $75 million in FY 2003 for the American Dream Downpayment Initiative but what did that $75 million dollars yield in new homeowners? Now, H.R. 1276 requests $200 million to help 40,000 families annually with $5,000 down payment assistance. What formula will HUD use in deciding what families are most deserving and what, if any, flexibility will HUD give to states and localities who are already executing the HOME Program without earmarking dollars for downpayment assistance?

Obviously, helping people keep their home enhances homeownership rates, something both the current Administration and all members of Congress want to do. I hope that increasing our homeownership rates will include a full range of initiatives instead of throwing money at part of a complex problem.

Financial literacy and education, downpayment assistance, prosecuting predatory lenders, and creating a national housing trust fund are the real issues we as a committee must invest our time in.

I look forward to the testimony of each witness and hope that we can address a full comprehensive plan for homeownership.

Thank you.

Statement of the Honorable Mike Rogers (Michigan)
Housing and Community Opportunity Subcommittee
of the Committee on Financial Services

"Promoting the American Dream of Homeownership
through Downpayment Assistance"
April 8, 2003

Mr. Chairman,

First, thank you for your attention and responsiveness to affordable housing matters in Congress. Second, I would like to thank Congresswoman Katherine Harris. As you are aware Mr. Chairman, we have joined forces as sponsors the American Dream Downpayment Act for the 108th Congress. As many of you know, this legislation is instrumental in helping rebuild our communities, one family and one neighborhood at a time.

Turning the key in the door of your very own home for the first time is a thrill that few families ever forget. For generations, the ability to purchase your own home has symbolized the hard work, thrift and personal responsibility that embodies the American Dream.

For some, the idea of owning their own home is but a dream, an unattainable dream. Across our nation, families get up, go to work every day, and play by the rules; but, they find that the downpayment on a home is a hurdle that keeps them from making that important investment in themselves and their community. These are families who, after paying the rent, buying groceries, and meeting their children's needs, have a tough time saving enough money to get past the first step of home ownership - the downpayment and closing costs.

To help first-time, low-income families overcome those highest barriers to home ownership, I introduced the American Dream Downpayment Act in the 107th Congress and have joined forces with Congresswoman Harris to reintroduce this much-needed legislation in the 108th Congress. Upon full enactment, this legislation will give effect to President Bush's proposal to help hundreds of thousands low-income families achieve the dream of home ownership over five years.

In support of the President's proposal, Housing and Urban Development Secretary Mel Martinez said it best: "Opening the doors to home ownership to more and more

Statement of Congressman Mike Rogers
April 8, 2003

Americans is one of this Administration's goals. The American Dream Downpayment fund will accomplish much more than that. By giving as many Americans as possible an opportunity to become stakeholders in their community, we believe it will help to stabilize some neighborhoods and completely revitalize others."

When I reviewed the President's budget, I knew this would be important for all Americans, especially families in Michigan's metropolitan areas such as Lansing, Flint and Detroit. In giving the President's proposal legislative effect, the American Dream Downpayment Act will provide communities throughout America with annual grants to help home buyers with the downpayment and closing costs, the biggest hurdles to home ownership.

These barriers are even more pronounced in America's minority communities. Currently, 46 percent of African-American and Hispanic families own their own homes, while nearly two-thirds of all American families own homes. Though many gains have been made in recent years to close the homeownership gap that exists for minority families, the above statistics reveal much work remains. In fact, this dynamic is exemplified in my home state of Michigan, where there is a tremendous homeowner deficit in Detroit, where last year Housing Secretary Mel Martinez and I toured neighborhood initiatives designed to improve the city through home ownership.

For example, a community development organization in Detroit named Core City Neighborhoods is at the forefront of helping move low and very low-income families into their own homes. The centerpiece of their efforts, in conjunction with Habitat for Humanity Detroit and the Michigan State Housing and Development Authority, is the revitalization of a 16-block area named Tri-Centennial Village. In this area, the median income is $13,000 per household, the housing stock is approximately 70 years old, and 65 percent of the land is vacant. This is exactly the type of neighborhood that needs our help under the American Dream Downpayment Act.

In closing, I would like to thank the bipartisan cosponsors in the House of Representatives of the American Dream Downpayment Act, including Subcommittee Chairman Ney and full Committee Chairman Oxley. I look forward to working with my House colleagues on continuing to advance this simple, but powerful, proposal to move more American families into their own homes.

Thank you.

Statement of Congresswoman Maxine Waters
Subcommittee on Financial Institutions and Consumer Credit
Check Clearing for the 21^{st} Century Act
April 8, 2003

Good Morning Mr. Chairman,

Technology is vastly impacting all aspects of modern life, and it is important that legislation allow for the flow of information in a timely and efficient manner.

I believe it is important that we have an efficient payment system in our country, which would reduce the check clearing time and provide substantial saving to the government, and financial institutions as it relates to the transportation of physical checks. If this process requires the elimination of paper checks, so be it. Personally, I do not receive my checks back from my bank. I also believe this legislation should be about choice.

The proposed language would allow consumer to seek redress only if they receive a substitute check. If a financial institution choose not to give substitute checks, the rights of the consumer is effectively nullified. And I believe this is a major area for potential abuse.

Consumers who receive a substitute check should receive the same remedies that are applied to negotiable instruments, such as checks. It is important that banks be required to re-credit a consumer's account quickly, and with maximum cooperation from the bank.

If you do not believe abuse by a well respected, and admired Fortune 500 Company is possible, I have one word for you, Enron. It is important to maintain provisions that require banks to offer redress to all consumers, whether it is a paper check or a substitute check, in the unfortunate event of an error by the bank or financial institution.

Another issue of that I would like to hear from the witnesses on is privacy. There is a great deal of personal information conveyed on the face of a check, such as the name, address, telephone number, and social security or date of birth of the issuer. This information is captured and stored in shared databases through electronic imaging.

Potentially, banks can determine a person's spending habits, and personal information like religious, political and lifestyle affiliations can be determined easily. This legislation needs to take consumer privacy under consideration.

Having brought up these issues, I look forward to the testimonies of the distinguished witnesses on the panel today. And I yield back the balance of my time.

Statement of Robert M. Couch, CMB
President & CEO
New South Federal Savings Bank
Birmingham, Alabama
on behalf of
Mortgage Bankers Association of America
before the
Financial Services Committee
U.S. House of Representatives
On The American Dream Downpayment Act, HR 1276
April 8, 2003

My name is Rob Couch. I am President and CEO of New South Federal Savings Bank in Birmingham, Alabama. Last year, our company of 636 employees originated more than $1.5 billion in home financing throughout the southern half of the United States. While I am always proud to speak of the good work that New South Federal Savings Bank undertakes to promote homeownership, I am here today as Chairman Elect of the Mortgage Bankers Association of America (MBA), and it is in this capacity that I have the honor to testify before the committee about legislation that will have a positive impact on families throughout this nation.

MBA is a trade association representing approximately 2,600 member companies that are involved in all aspects of real estate finance. Our members include national and regional lenders, mortgage brokers, mortgage conduits, and service providers. MBA is comprised of residential mortgage lenders, both single-family and multifamily, as well as commercial mortgage lenders.

I am proud to speak to you today on behalf of the mortgage banking industry, a crucial part of this country's housing finance system. This system has, over the past several years, helped the American public achieve historically high rates of homeownership due, in no small part, to historically low interest rates and real estate finance professionals equipped with an extensive menu of lending options for nearly every segment of society.

MBA members have played a large role in the success of today's housing market. Our members have actively worked to develop the policies and programs that guide the sophisticated housing finance system the U.S. enjoys today. MBA members have worked diligently within this infrastructure to offer a wide diversity of financing products to match the wide-ranging needs of the American public. Never before in our nation's history have more people been served through the many available financing product options to achieve the American dream of homeownership.

The American Dream Downpayment Act will help keep the homeownership rate growing. This program will help many more low- income Americans join the ranks of homeowners and it will help build communities. HUD estimates that 40,000 more families per year will be able to become homeowners under this program. This program directly assists the needs of good borrowers who desire to become good homeowners, but who are constrained by the financial obstacle of the downpayment.

The benefits of the current confluence of low interest rates and the wide array of financing products, is well documented in the media. Almost daily, newspaper headlines appear across the nation concerning the housing industry and the bright spot it represents in the American economic landscape. While some pessimists are waiting for the housing bubble to burst, nationwide many thousands of people are working with lenders to purchase a home or to refinance existing mortgages.

More Americans than ever before are participating in the economic and social benefits of homeownership. The economic benefits to families of homeownership are well documented. Research is linking homeownership to improved outcomes for children, even when the education and financial status of the parents are held constant. Certainly, those working in the field of community development can attest to the transformational effects of homeownership on neighborhoods.

Yet, there is still much more to be done, as not everyone who could be a successful homeowner is able to buy a home today.

In 1999, the minority homeownership rate was 25.8 percent lower than the rate for non-Hispanic whites (Cityscape: A Journal of Policy Development and Research; Vol. 5, Number 2, 2001). This number was only a slight improvement over the 1994 gap of 26.8 percent. A recent report from the Bipartisan Millennial Housing Commission stated that the gap between lower income and high-income homeownership rates was more than 32 percent. Clearly, many Americans are not fully participating in the American dream of homeownership. There is much that policymakers can do to help close these gaps.

These disparities in homeownership represent challenges for Congress to continue to develop programs that would widen the circle of homeownership. We need to provide individuals who are on the edge of the American dream with the tools to make, what is often, the biggest wealth-building decision they will ever make.

The American Dream Downpayment Act represents an investment in these homeowners. It is an investment in the truest sense of the word. The federal resources used in fostering additional homeowners, will be returned many times over as families build wealth and communities fill with residents who have an ownership stake in their neighborhoods.

There are several reasons why potentially good borrowers may choose not to become homeowners, but a primary hurdle that stands in the way of many who want to become

homebuyers is the downpayment. The downpayment is a particular obstacle to minorities and low- income families. MBA believes offering downpayment assistance is the next logical step in reaching those who are not currently homeowners.

MBA is an active participant in the Administration's "Blueprint for the American Dream," a clearly delineated approach to addressing the obstacles to homeownership. The primary goal of this initiative seeks to make homeownership a reality for an additional 5.5 million minority families by the end of the decade. The American Dream Downpayment Act is specifically cited in the Blueprint, as a plan to address one of the primary obstacles to homeownership for minority families.

A recent study in the publication Housing Policy Debate indicated that whereas 2.8 million renters could achieve homeownership using a particular affordable mortgage product, this number jumped to 7.6 million when a downpayment voucher is added. The study concluded that "Because downpayment constraints present such a large barrier, it is not surprising that a downpayment voucher dramatically enhances home-buying capacity." ("The Potential and Limitations of Mortgage Innovation in Fostering Homeownership in the United State", *Housing Policy Debate*, Vol. 12 Issue 3, Fannie Mae Foundation).

I would also like to commend the Administration and Representative Harris for placing this initiative within the HOME Investment Partnership program. The HOME program with its successful track record dating back to 1992, has acquired, constructed, or rehabilitated more than 400,000 units of affordable housing. The strength of the HOME program lies in the fact that it empowers communities to identify needs in a locally created plan and then pursue solutions using federal funds matched by local resources. Using federal funds to address locally-identified affordable housing issues, as the HOME program does, is strongly supported in the Report of the Bipartisan Millennial Housing Commission, of which MBA has been an active partner.

One goal of the HOME program is to foster public/private partnerships, especially with lenders. In fact, participating jurisdictions are strongly encouraged to engage lenders in local programs. The American Dream Downpayment Act will provide a perfect vehicle for engaging lenders. Lenders already have a wide array of affordable mortgage financing products, which could leverage the HOME funds appropriated through the American Dream Downpayment Act. In this sense, when a 3% downpayment is funded under the HOME program, it will be leveraged by the 97% of private funding provided by the lender. This is more than a 20-to-1 leverage of public dollars with private dollars.

Again, I reiterate that this legislation represents true investment: An investment of a single HOME program dollar will prompt a lender's investment of twenty dollars more that will get a family into their own home and provide them with one of the strongest wealth-building tools available. The social return on this kind of investment is very powerful.

MBA was pleased to see funding for this program in the President's 2004 budget as additional funding above the HOME program's regular funding. We do not believe the current level of HOME funding should be diminished to fund this initiative. MBA supports the Administration's budget request and Representative's Harris' bill. Mr. Chairman, and members of the Committee, MBA looks forward to working with you to make this program a success.

Thank you for allowing me the opportunity to testify before the committee today.

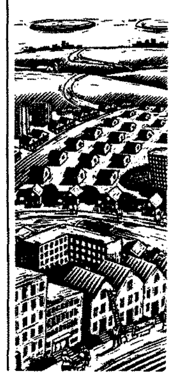
NeighborWorks®
CHARTERED MEMBER

Written Testimony of
Lori Gay
Executive Director

Los Angeles Neighborhood Housing Services

Promoting the American Dream of Homeownership through Down Payment Assistance

Submitted to the U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and
Community Opportunity



April 8, 2003

Good afternoon, Subcommittee Chairman Ney, Ranking Member Waters, and members of the subcommittee. My name is Lori Gay and I am the executive director of Los Angeles Neighborhood Housing Services (LA NHS). I have worked in the community development field for the past 18 years, and have focused my efforts on rebuilding impoverished communities and creating mechanisms for resident empowerment and expanding homeownership opportunities for low- and moderate-income families – with a particular emphasis on serving new immigrants and minority families. I am here this afternoon to talk with you about the benefits of downpayment assistance for low- to moderate-income borrowers based on the experience of the LA NHS.

Los Angeles Neighborhood Housing Services

Let me first say a word about the LA NHS, where I have worked since 1990. Over the last 13 years, LA NHS has served over 1.4 million families, developed and rehabilitated over 6,200 housing and commercial units, established 150 block clubs, educated and counseled over 68,000 prospective home buyers, and employed over 200 neighborhood youth, while investing more than $1.1 billion back into some of Los Angeles' toughest neighborhoods. I am proud to report that LA NHS is the largest, comprehensive provider of affordable homeownership in Southern California, putting 38 families a day on the road to homeownership.

I also serve as Chair, California Organized Investment Network (COIN), Board Member, Federal Reserve Bank of San Francisco--Los Angeles Branch, The Gas Company--Consumer Advisory Council Member, and Washington Mutual Community Advisory Council Member.

Member of the NeighborWorks Network

Los Angeles Neighborhood Housing Services is a member of the NeighborWorks® network -- founded and supported by Neighborhood Reinvestment Corporation. The Neighborhood Reinvestment Corporation strengthens communities and transforms lives across America by supporting innovative local partnerships of residents, businesses, and government, collectively known as the NeighborWorks® network, and by advancing broader community development goals. This year alone, the NeighborWorks® system will generate nearly $2 billion of direct investment in more than 2,300 lower-income urban, suburban and rural communities nationwide; help more than 38,000 lower-income families purchase, improve and maintain their homes; provide pre-purchase and post-purchase homebuyer counseling to more than 78,000 families. NeighborWorks® organizations also own and managed over 36,000 rental or mutual housing units

LA NHS and each locally governed NeighborWorks® organization operates a revolving loan fund for non-conventional loans to meet community credit needs that cannot be funded through bank or public loan sources. Each local NeighborWorks® organization is

responsible for setting strategy, raising funds and operating their program. Most provide homebuyer counseling, rehab monitoring, and targeted lending services that complement conventional lending activity.

The NeighborWorks® System integrates public and private support, leveraging federal funding to attract private resources. Private investors have viewed the NeighborWorks network as an increasingly sound investment; in fact, the typical NeighborWorks organization receives most of its funding from private sources and earned fees. Neighborhood Reinvestment does provide a critical financing vehicle to NeighborWorks® organizations in the form of equity capital grants for real-estate development and local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including equity and gap financing for home-purchase loans, including down payments and closing costs.

Loan recipients are typically underserved families. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are made to very low- or low-income households, 53 percent to minority-headed households, and 43 percent to female-headed households. Loans carry a rate and term that the borrower can afford to pay back. The NeighborWorks® System is the only national nonprofit network with expertise in designing, originating and servicing small non-conventional loans to lower-income families. These loans help create first-time homebuyers, often prevent mortgage delinquencies, provide money for repairs, and help ensure accessibility for those with disabilities. The loans offered by local NeighborWorks® organizations provide a blanket of security for neighborhoods of modest means. By designing loans to fill the gap between the capacity of the borrowers and the parameters of conventional lenders, the NeighborWorks® organizations complete transactions that would not otherwise be made.

In Los Angeles, LA NHS originated $72 million of lending activity for families of modest means in Fiscal Year 2002 alone. By utilizing public and private resources, LA NHS was able to assist nearly 15,000 families toward achieving their dream of homeownership.

The Need for Downpayment Assistance

Our experience in Los Angeles and throughout the national NeighborWorks® network is that one of the primary barriers to achieving the American Dream of Homeownership for low- and moderate-income people is the lack of accumulated wealth and disposable income.

Lower-income renters are at a disadvantage in accumulating cash to cover downpayment and closing costs. In order to accumulate wealth, households must consume less and save more or they must receive inheritances or cash gifts from relatives or other benefactors.

Lower-income households generally have to spend most of their small incomes for basic needs such as shelter, health care and food, leaving little for savings.

Aware that many families lack enough wealth to fund a conventional downpayment of, the mortgage industry has begun lowering downpayment requirements to 1 percent, or even less. While the mortgage industry is reaching out to families who are constrained from affording a home by wealth alone, lowering downpayment requirements may make income constraints worse by adding to the mortgage amount and increasing mortgage insurance premiums.

LA NHS EXPERIENCE WITH DOWNPAYMENT ASSISTANCE

LA NHS applies for and receives equity capital grants from Neighborhood Reinvestment Corporation. These grants are available to the entire NeighborWorks® network and are a critically important financing vehicle for revolving loan funds that support real-estate development and lending. NeighborWorks® organizations use these grants to provide the equity and gap financing necessary to make loans for home purchase, property purchase, rehabilitation and down payment assistance.

LA NHS helps low to moderate-income residents achieve the American Dream of homeownership by participating in state, county and city programs that benefit these potential homeowners by providing down payment assistance. LA NHS' Revolving Loan Fund (RLF) was developed to further assist very low to low-income borrowers who needed more assistance than these programs could provide. As local financial institutions merged and as our targeted communities became more underserved, LA NHS increased its direct lending efforts. This significantly increased the number of residents able to combine our funding with available public-sector assistance and conventional loan programs offered by lenders affiliated with Fannie Mae and Freddie Mac.

In our experience, low to moderate-income families who are able to receive down payment assistance, whether through public or private sector sources, have more capacity to achieve their dream of homeownership than do those who do not receive assistance. Given the limited resources, inability to build assets and lack of intergenerational transfers of wealth amongst these families, the funding provided for down payments and closing costs makes all the difference between success and failure. For example, during 2002, LA NHS worked in partnership with the City of Los Angeles to assist more than 300 low-income families to achieve homeownership utilizing a city subsidy program for down payment, closing costs and home rehabilitation. By providing up to $75,000 as a second mortgage at zero percent for 30 years for eligible families, the City of Los Angeles quadrupled the number of families that had been assisted in prior years. As you can imagine, the enthusiasm of these triumphant new homeowners has a ripple effect that catalyzes other neighbors, friends and family members to succeed in their pursuit of homeownership as well, while becoming more active citizens who contribute to the betterment of Los Angeles.

According to a recent study cited in Fortune magazine (August 12, 2002), home equity appreciation has been the single most important driver of wealth creation in the United States over the past 30 years – outperforming the S&P 500 by 5% - even without accounting for the mortgage interest deduction. For low-income families, becoming an enlightened homeowner is perhaps the single most significant factor that will promote long-term economic stability. Subsequently, LA NHS has made homeownership and home preservation a priority as it assists families from a non-asset building position to one of building wealth.

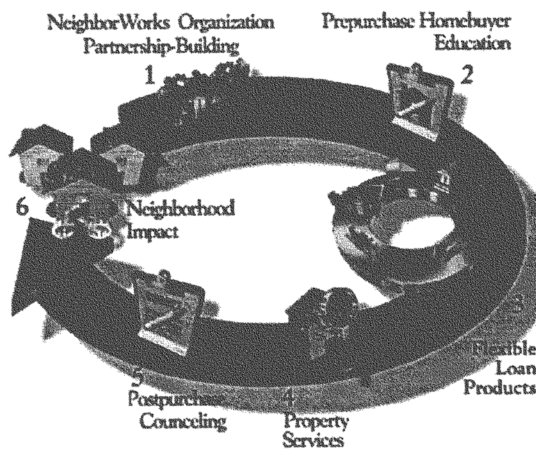
A Comprehensive Homeownership Strategy

The NeighborWorks® Campaign for Home Ownership initiative is a joint effort of banks, insurance companies, secondary markets, government, the real estate community and others, coordinated by Neighborhood Reinvestment Corporation and involving more than 130 local community-based NeighborWorks® organizations to bring families of modest means into home ownership. The NeighborWorks® Campaign for Home Ownership has assisted over 65,000 low- to moderate-income families to purchase homes, educated more than 350,000 families, and generated over $4.5 billion in investment.

Leaders of community-based organizations in the national NeighborWorks® network recognized that the conventional mortgage market could not fully meet the needs of their lower-income customers. By creating a system that reaches these customers, teaches them about home ownership, and prepares them to be owners, these nonprofits have not only been able to help lower-income families obtain the American Dream of Home Ownership, but have also done so in a way that reduces the risk of delinquency and foreclosure. This system, service marked as Full Cycle Lending℠, includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle Lending℠ is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. More and more homeowners will stake a claim in their communities, enhancing the tax base and contributing to overall community stability and renewal.

The Steps of NeighborWorks Full-Cycle Lending℠



1. **Organization Partnership-Building.** The NeighborWorks® organization makes a commitment to the process by creating a partnership of residents, business and local government leaders. A plan for targeted community revitalization is put in place.
2. **Pre-purchase Homebuyer Education.** The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.
3. **Flexible Loan Products.** Local lenders work with the NeighborWorks® organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.

4. **Property Services.** The NeighborWorks® organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. **Post-purchase Counseling**. The NeighborWorks® organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. **Neighborhood Impact.** Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency. Everyone benefits.

NeighborWorks® Full-Cycle Lending℠ is a means, not an end. As this comprehensive system is established, home-ownership rates among lower-income families rise, resulting in more stable communities with longer term residents, increased savings and civic involvement for individuals and families, and increased high school and college graduation rates for their children. By stimulating reinvestment in NeighborWorks® communities, Full-Cycle Lending℠ is a powerful force that leads to a renaissance in lower-income neighborhoods across America.

Current Downpayment Assistance Efforts

LA NHS has utilized a variety of strategies with respect to down payment assistance for low to moderate-income families. Local and state government funding is critical in assisting our families to become homeowners by providing down payment, closing cost assistance, and home rehabilitation resources. In addition, some grant programs provide down payment assistance that does not have to be repaid. This is an essential element to encourage families to save their own funds, to lower loan-to-value ratios and potential default risk, as well as to lower monthly payments.

LA NHS utilizes Full Cycle Lending℠ to implement its affordable homeownership programs, and offers the potential homebuyer down payment and closing cost assistance through matching grants, zero percent second and third mortgages, lease-to-purchase opportunities, below-market financing and employer-assisted housing initiatives.

Through the use of government subsidies and foundation grants, LA NHS has been able to encourage private corporations to participate in our homeownership efforts, as well as public housing authorities to assist families who may wish to move from Section 8 to homeownership. For example, LA NHS targets local employers to participate in providing down payment assistance to their employees as a part of their overall benefits program, and as a recruitment and retention tool. LA NHS has been successful in assisting public sector employees, such as firefighters, police officers, postal workers and teachers. While these efforts have been the result of assistance from the private sector,

union members, universities, hospitals, longshoremen and retail workers have benefited from LA NHS' efforts.

LA NHS provides on-site financial education through its "Lunch and Learn" program, as a tool to attract local employers, and then offers financial assistance to those workers who are eligible and graduate from the on-site classes. LA NHS utilizes government subsidy programs and more conventional financing for those families who are "more ready" to purchase a home, while those who have a lack of savings or credit challenges are encouraged to join the Individual Development Account (IDA) program, and to receive assistance from LA NHS through its Revolving Loan Fund. Through IDA, families can receive a 5:1 funding match (up to $10,000 of their savings) for homeownership. Participating families receive 36 hours of financial education over the course of 12 months and also receive individual counseling and case management services. This attention and focus on the potential borrower ultimately produces a stronger, more prepared borrower in the long term and helps to reduce the risk of mortgage default. During its 18 year history, LA NHS has never experienced a foreclosure through its Revolving Loan Fund, and maintains a three percent or less delinquency rate.

As a member of the NeighborWorks® network, LA NHS has been participating in President Bush' minority homeownership initiative and the Sears American Dream Campaign. LA NHS' primary customers are typically 47 percent African-American, 45 percent Hispanic, 3 percent Asian, and 5 percent Caucasian and Other. Through the Sears American Dream Campaign, LA NHS was able to assist three families to purchase homes in late 2002 who would otherwise have not been able to afford their homes. All three families received down payment assistance from Sears and appliances to equip their new homes. They will receive ongoing counseling and the opportunity to participate in LA NHS home maintenance training courses.

An example of the importance of providing down payment assistance is notable through the experience of Naomi and Jae Beck. Naomi and Jae Beck, originally from Korea, were able to purchase a home through LA NHS. For the last 12 years Naomi has been a nurse at Shriner's Hospital, and Jae manages a garment factory. Neither ever expected they would be fortunate enough to buy a home. Then Naomi noticed a small ad in the *L.A. Times* for an introductory seminar being offered by LA NHS for potential first-time, lower-income homebuyers.

Naomi attended a full two-day homebuyer-education class and was told by NHS staff that her family's income and stable work history would qualify them for an affordable home loan.

The Becks began searching for a home and spotted one near their daughters' school. Although previous tenants left the home in terrible condition, the Becks were excited about the prospect of purchasing in this community. In January 2002, the Becks purchased a three-bedroom, one-and-a-half-bath home in Sunland, in the San Fernando

Valley. LA NHS financed the first mortgage, and the city of Los Angeles provided the Becks with a $75,000 soft second mortgage through its "*HomeWorks!*" program. "*HomeWorks!*" encourages residents to purchase in neighborhoods targeted for revitalization by providing funding for renovations and bridging the affordability gap between what a house costs and what the purchaser can afford to pay. Of the $75,000, $25,000 was used to rehabilitate the home.

The Becks' monthly mortgage payment of $1,018 is only $68 more than their previous rent. LA NHS also monitored the rehabilitation of the Becks' home, which included a new kitchen, flooring, bathrooms, garage, windows and doors, paint and a fireplace.

Naomi is active in the Korean community and in February 2002, she hosted a press conference at which the Becks were interviewed by *The Korean Times*, Los Angeles and the Korean Television Enterprises, Ltd. Publicity from this event resulted in 600 Korean residents showing up for an introductory seminar on home ownership, and eventually more than 3,200 Korean families attended LA NHS' homebuyer education program. Naomi is now an active volunteer with LA NHS and refers customers on a frequent basis.

The Neighborhood Reinvestment Corporation estimates that the entire NeighborWorks® network will provide over $10 million in downpayment and closing cost assistance in Fiscal Year 2003. The average interest rates of these loans is 5.34 percent, with some falling to as little as 1.88 percent, depending upon the borrower's ability to repay.

Lowered down payments can make homeownership possible for low-income buyers, but lenders rightly perceive these loans to be a higher risk than loans with lower loan-to-value ratios. The lender has less of a cushion in the event of a decline in house prices and the borrower has little to lose by walking away from property if the value of the home falls below that of the outstanding mortgage. As a result, the default costs of low-downpayment loans are often assumed to be higher than other loans, as evidenced by the performance of these loans in the past. To protect themselves, lenders therefore typically require mortgage insurance, which raises the monthly carrying costs of owning a home. As a result, the income constraint of homeowning can become a binding factor that keeps low-income families from being able to afford a home, regardless of downpayment assistance. In order to keep costs low for low-income homebuyers, perhaps mandating high quality pre-purchase counseling for lower-income homebuyers with little or no downpayment could allow for a reduction in mortgage insurance.

LA NHS and all other community development corporations would support an increase in resources that reach local communities that desperately need funding. However, offering downpayment assistance without the benefit of pre-purchase homebuyer education would be a tremendous mistake and a potential waste of money. Homebuyer education is the key to keeping new homeowners in their homes.

Conclusion and Summary

Let me close by thanking the Subcommittee for the opportunity to speak about the work of Los Angeles Neighborhood Housing Services and the broader NeighborWorks® Network. The addition of a national downpayment assistance pool would tremendously assist the work of the Los Angeles Neighborhood Housing Services and the entire NeighborWorks® network. However, merely creating homeowners is not sufficient to stabilize the communities I work in as well as the 2,300 communities served by the NeighborWorks® network. Through pre- and post-purchase education combined with financial assistance, the Los Angeles Neighborhood Housing Services and the NeighborWorks® network will continue to create sustainable homeowners who will work to revitalize this nation's communities.

CITY OF JACKSONVILLE
DEPARTMENT OF PLANNING & DEVELOPMENT
HOUSING SERVICES DIVISION

My name is Darrell V. Griffin, Sr. and I am the Division Chief for the City of Jacksonville, Planning and Development Department, Housing Services Division. I bring greetings from Mayor John Delaney and Jeannie Fewell, Director of the Planning and Development Department. I am here today, speaking in support of the proposed legislation H.R. 1276, American Dream Downpayment Act.

Before telling you about the fantastic homeownership programs we administer in the City of Jacksonville, allow me the opportunity to provide some demographic data about our City, which is located in northeast Florida. Jacksonville is approximately 840 square miles of landmass, with a population of 807,012 people. According to the 2000 Census, Jacksonville's racial composition is as follows: 65.80% White, 27.80% Black, 4%Hispanic and 2.4% categorized as other. There are 303,747 households in Duval County, of which 63% are owner-occupied. Of those owner occupants, 76% are owned by Whites, 19% by Blacks, 3% by Hispanic and 4% are of other nationalities. In Jacksonville, the area median income for a family of four is $55,400.

The City of Jacksonville, Planning and Development Department, Housing Services Division's (PDD-HSD) strategy for providing affordable housing is to encourage public/private partnerships to stimulate the construction and reconstruction of residential properties and to increase and improve the supply of affordable housing. The PDD-HSD administers several homeownership programs which are designed to encourage homeownership and make the purchase of a home possible for low-and-moderate income residents who are 80% of the median income and below. The City of Jacksonville anticipates allocating from its 2004 funding $1million of its $3.8 million in HOME Investment Partnerships Program funds to our award winning downpayment assistance programs called the Headstart to Homeownership (H2H) Program and the HOME-Purchase and Rehabilitation (HOME-PAR) Program. The H2H Program has twice been awarded the Department of Housing and Urban Development's prestigious "Best Practice Award."

HEADSTART TO HOME OWNERSHIP (H2H) PROGRAM

The H2H Program targets qualified applicants whose income is 80% or less of the median income for Jacksonville. H2H offers financial assistance up to $14,999, to provide down payment, closing cost and principle reduction assistance to eligible families/individuals who currently do not own a home and wish to purchase a home as their primary residence. Perspective homeowners may purchase any single-family housing unit, newly built or existing, including patio homes, town homes, and condominiums located within the consolidated City of Jacksonville. In addition to meeting the income criteria listed below, the applicant must have a minimum down payment of <u>$500.</u>

Family Size	* Minimum Gross Income (50% of Median)	* Maximum Gross Income (80% of Median)
1	$19,450	$31,150
2	$22,250	$35,600
3	$25,000	$40,050
4	$27,800	$44,500
5	$30,000	$48,050
6	$32,250	$51,600
7	$34,450	$55,150
8	$36,700	$58,700

* The gross income limits are effective as of February 2003 and are adjusted annually.

The maximum purchase price for one-family unit for Duval County as of February 2003 is $154,600. Local Lenders provide a first mortgage for the purchase of the property The Lender will offer their funding at their "par" market rate without origination or discount points for 30 year fixed-rate conventional loans and FHA –Insured loans with a maximum loan-to-value of 97%. The City of Jacksonville will provide a subsidy in the form of down payment, closing costs, and/or principal reduction assistance for eligible persons. The amount of financial subsidy received will be based on your total household size and income. The City's financial assistance will be in the form of a 2^{nd} mortgage, at 0% interest, for five years, with the repayment of the subsidy deferred and a portion forgiven annually until the term has ended. If the property is sold before the end of the City's mortgage term, or the applicant ceases to occupy the property as their principal residence, the applicant must repay the City an amount equal to the portion of the loan amount, which has not yet been forgiven. In the event the borrower either transfers title to the property or moves from the premises prior to the expiration of the forgiveness period, the pro-rated principal balance of the second mortgage shall immediately become due and payable. In the event of the borrower's death, prior to the expiration of the forgiveness period, the second mortgage shall continue in force as long a member of the immediate family lives in the housing unit, meets the income level requirements and maintains the home as their primary place of residence.

All homes sold under the H2H Program are inspected by licensed Home Inspection Properties and must be in compliance with Section 8 Housing Quality Standards (HQS) prior to closing.

HOME-PAR PROGRAM

The goal of the HOME-PAR program is to encourage and support homeownership and revitalization efforts within the Mayor's Intensive Care Neighborhoods, and targeted areas with adopted Neighborhood Action Plans. Implemented in March, 2003 the HOME-PAR Program offers financial assistance up to $25,000 to families and individuals 80% of the median income who wish to acquire and rehabilitate a substandard home, which after rehabilitation will become the owner's primary residence.

Like the H2H program the City's subsidy may be used for down payment, closing cost and principal reduction assistance. In addition, funding may be used to provide gap financing when the cost to acquire and renovate the home exceeds the after-rehab appraised value. The applicant must have a minimum down payment of $500. The lender will provide a first mortgage for the acquisition and rehabilitation of the property with a maximum loan-to-value of 97%. The City subsidy will be in the form of a second mortgage in an amount not to exceed 120% loan to value.

The rehabilitation work performed under the HOME-PAR program must be completed by licensed general and residential contractors in good standing with the Department of Professional Regulations and the Department of Consumer Affairs. The contractor furnishes all labor, materials, equipment, permits, licenses and services for the proper completion of the project. All work performed is subject to inspections by the Lender, the Building Inspection Division and the PDD-HSD Inspector to ensure compliance with the terms of the contract, applicable codes and standard trade practices. The Contractors provide a full one-year warranty to the homebuyer, for the workmanship on all contract items other than roofing. A five-year warranty will be provided on the labor for all roofs installed.

KEYS TO SUCCESSFUL HOMEOWNERSHIP PROGRAMS

- ✓ Lenders provide market interest rates, fix mortgages and **No** discount points or origination fees are assessed.
- ✓ To prevent over indebtedness, debt-to-income ratios may not exceed 33% for housing expenses and 43% for the total monthly obligations or the back-end ratio.

- ✓ Minimal down payment required.
- ✓ Homebuyers are provided with professional home inspections and licensed general contractors.
- ✓ One-year warranties are provided on all rehab projects, with a five-year warranty of the roofs.
- ✓ Eligible closing costs include homebuyers Home Shield Warranty, up to six months construction interest and gap financing.
- ✓ Homebuyers are required to attend homebuyer training prior to closing.
- ✓ Applicants denied for poor credit or who are currently over-extended are referred to Consumer Credit Counseling, tracked the process and referred back to our office once credit is repaired.
- ✓ Forgiveness clauses in the City's second mortgage promotes equity and ensures wealth building; provided the homebuyer maintains the home as their primary residence.

PROGRAM AND HOMEBUYER DEMOGRAPHICS

Through the partnership of local lenders, realtors, inspection companies, and contractors, the PDD-HSD have assisted 1,199 families and individuals in purchasing a home under the H2H and HOME-PAR programs since 1997. During this time, the PDD-HSD leveraged $73,946,139 in private financing with $9,184,077 in federal HOME funds; which equates to an 8 to 1 ratio. The average home sales price is $67,574 and the average City subsidy is $7,698.

As the data below reflects there has been an equal number of participation among Blacks and Whites. However, our typical homebuyer profile under our programs is an African-American female head-of-household, age twenty-eight, with two children and an annual income of $25,559. The oldest homebuyer served was 82 years old and the youngest was 19. Below is the racial and gender breakdown of the 1,199 homebuyers served to date.

RACE	GENDER	TOTAL	** RACIAL %
* White	Male	231	19%
	Female	272	23%
	Total	**503**	**42%**
Black	Male	119	10%
	Female	384	32%
	Total	**503**	**42%**
Hispanic	Male	74	6%
	Female	46	4%
	Total	**120**	**10%**
Asian	Male	26	2%
	Female	9	1%
	Total	**35**	**3%**
Other	Male	25	2%
	Female	13	1%
	Total	**38**	**3%**

* Includes Bosnian and Russian homebuyers.
** Percentages rounded to the nearest tenths

PROBLEMS IN OBTAINING HOMEOWNERSHIP

- ✓ Approximately 50% of the applicants who apply for assistance are declined for poor credit and referred to Consumer Credit Counseling Services.
- ✓ Habitual poor credit scores highlight the need for early intervention and education in the importance of maintaining positive credit. This includes consumer and homebuyer education and credit counseling.

- ✓ Applicants, under 50% of the median income generally have difficulty making enough income to adequately cover the cost of living and the added responsibilities of maintaining a home.
- ✓ Homeownership programs and additional support services must continue and be expanded to help people move out of poverty and into the middle class.

NEIGHBORHOOD ACTION PLANS

Because many of our older neighborhoods in Jacksonville have undergone fundamental changes in physical conditions, land use, and demographics within a period of a few decades, the Planning and Development Department (PDD) has prepared several Neighborhood Action Plans (NAP) designed to promote revitalization and reinvestment into these areas. These plans contain detailed descriptions of the existing neighborhood conditions and an assessment of community needs in terms of infrastructure improvements, housing rehabilitation, potential for new construction, human services support, and redevelopment of commercial corridors within these neighborhoods. The PDD has engaged nonprofit Community Development Corporations (CDCs) and the local residents in a grassroots effort to determine how to best address these needs using available resources. Because vacant land and disposition is a key element of our neighborhood strategies, the City of Jacksonville has improved the process for acquiring and conveying real-estate through local government action.

Three NAP's have recently been approved and adopted by the City Council and the Mayor has allocated $5 million in general revenue funds to support the implementation of these plans. The PDD is guided by the awareness that stimulating reinvestment requires a succession of activities during a number of years, generating incremental improvements and dedicated financial and human resources over an extended period.

We are also aware that homeownership is a key component to the revitalization of these neighborhoods and that these older areas must be saved, as they provide much historic significance to our City and a great source of affordable homes for our residents. Studies have shown that an infusion of home purchases by first-time homebuyers in a concentrated area is a key indicator of future economic success and a stabilizing force to businesses and schools in the area. With the current climate of low mortgage interest rates, dedicated financial and human resources, the emergence of CDCs and the availability of homebuyer assistance programs like the H2H and HOME-PAR programs, many neighborhoods and communities in Jacksonville and throughout our country can be restored.

SUMMATION

Homeownership is the largest and in many cases the only source of wealth building for most families and individuals, especially for the perspective homebuyers we target at 80% of the median income and below. The successful revitalization of Jacksonville's intensive care neighborhoods and neighborhood action plan areas demonstrate that public funding delivered to homeownership and neighborhoods, as part of a well-organized reinvestment strategy, can leverage private financing and other valuable resources and produce lasting benefits, both physical, economic and social. However, it is imperative to have continued federal and state funding to sustain a base of capital investment and program delivery to ensure the continued success of these and other initiatives. Consequently, we fully support the legislation to enact the American Dream Downpayment Act.

City of Austin
Founded by Congress, Republic of Texas, 1839
Neighborhood Housing and Community Development Department
P.O. Box 1088, Austin, Texas 78767-1088

Testimony of Paul Hilgers, Director
Neighborhood Housing & Community Development Department
City of Austin, Texas

before the

Subcommittee on Housing & Community Opportunity
Committee on Financial Services
United States House of Representatives

April 8, 2003

Mr. Chairman and Members of the Subcommittee, my name is Paul Hilgers, and I am the Director of the Department of Neighborhood Housing and Community Development for the City of Austin, Texas. I am honored to have the opportunity to testify before you today regarding H.R. 1276, the American Dream Down Payment Act.

This written testimony is intended to provide an overview of our comprehensive housing investment strategy and how using the tool of down payment assistance has improved our ability to assist low- and moderate-income families in becoming homeowners, many for the first time. Homeownership is an integral part of the American Dream that is out-of-reach for many low-income families in Austin because of the high cost of single-family, owner-occupied housing. H.R. 1276 is a step in the right direction to remedy this problem.

H.R. 1276 is a step in the right direction because it provides additional resources for cities, like Austin, to provide down payment assistance to families to purchase a home. Oftentimes, this is the major barrier to families owning their first home. I support the $200 million in funding requested in H.R. 1276. One of the major reasons for this support is that the legislation adds $200 million to the HOME program and is not a set-aside. I cannot express enough the importance of the HOME program to my city and others in providing the flexibility and resources to fill the gaps in funding for our Down Payment Assistance Program and other affordable housing initiatives. I believe strongly in the delivery system established by the Community Development Block Grant and HOME programs. These programs allow local governments to make decisions about how the funds should be used to impact the most significant needs within their community.

I would also recommend that H.R. 1276 be expanded to include pre-purchase counseling. Low-income residents in Austin need pre-purchase counseling to inform them of the necessary steps to achieve homeownership, such as how to deal with credit issues, how to deal with resident status issues, and how to budget and plan for the fiscal responsibility of homeownership. Because of the language barrier that many of our residents face, it is only fair to them to provide pre-purchase counseling to ensure that they fully understand every aspect of the process. H.R. 1276 should also be amended to allow up to ten percent for administrative costs. To ask current HOME staff and administrative cost limits to absorb this new effort may undercut its success.

I respectfully request that the Subcommittee examine the current Uniform Relocation Act (URA) provisions and their disincentive to first-time homebuyer programs. Under the current URA provisions, any local participating jurisdiction that uses HOME funds for homebuyer assistance, even small amounts for down payment assistance, triggers URA relocation payments. This acts as a disincentive to local governments becoming involved in homebuyer programs where federal funds, like HOME, are used. In the end, it hurts the very population, low-income Americans, that HUD is trying to focus upon in its strive for homeownership.

Finally, I support this legislation because it brings attention to the need for affordable housing assistance, albeit down payment assistance. I would urge you, Mr. Chairman and other members of the Subcommittee, to continue to pursue affordable housing assistance in other areas, such as providing additional funding to HOME for housing production and other activities.

I. The Housing Crisis in Austin, Texas

Over the past decade, Austin, Texas has experienced double digit increases in the price of housing every year. The increased population and decrease in housing production within the City limits of Austin have virtually eliminated the previously bountiful housing supply. The result of this crisis has been the need to address housing from a comprehensive public policy perspective; i.e. to regard housing as a critical issue requiring leadership from our local government, Chamber of Commerce, low income housing advocates, non-profit housing providers, lenders, homebuilders and developers.

In 1999, a report entitled "Through the Roof" was produced by a coalition of housing interests within the city. The report serves as a blueprint for understanding the extremely complicated nature of housing issues and how they impact a variety of other social and economic conditions in Austin. The major issues outlined in the report are the same issues that many cities still face, such as "NIMBYism," a lack of available land for development, regulatory obstacles within the development review process, and the need for additional funds that could be leveraged with our federal HOME allocation.

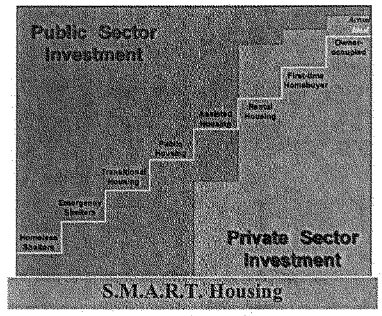
II. The Housing Continuum: A Framework for Investment and Collaboration

Several years ago, the City of Austin identified a " housing continuum" as the framework for investment to link housing programs through the community and to assist residents in moving into the private housing market. This continuum serves as a planning and evaluation tool for ensuring that there are housing opportunities appropriate to meet a spectrum of housing needs.

The continuum extends across eight categories -- from homeless services, emergency shelters, transitional housing, public housing and assisted housing to rental housing, first-time homeownership, and owner-occupied housing. This continuum is useful to the city in structuring programs that are coordinated in a manner designed to assist residents in moving toward self-sufficiency. It is a conceptual framework proven useful in designing programs that invest in housing opportunities according to the level of subsidy required by the specific functional category. The lower the income level of the client, the higher the subsidy.

Perhaps most importantly, this locally designed housing continuum provides a framework for collaboration and partnerships among formerly competing housing interests.

The Housing Continuum™
An Investment Strategy



Both the quantitative analysis of Austin's housing needs and feedback from residents and stakeholders reinforce the reality that there are serious housing needs facing every level of the continuum. It recognizes the reality that the housing crisis is impacting both the very poor as well as moderate-income families in our community. In Austin, we are continuing to work on developing the appropriate tools to address the housing needs of each functional category of the continuum. One of those critical tools is our Down Payment Assistance Program, discussed later in this testimony.

The foundation for the housing continuum and all of the City's housing programs is our S.M.A.R.T. Housing Initiative. This locally designed policy initiative is designed to remove the regulatory barriers to affordable housing and stimulate the production and preservation of housing.

III. S.M.A.R.T. Housing: Reducing Regulatory Barriers to Affordable Housing

The Austin City Council adopted the S.M.A.R.T. Housing Initiative on April 20, 2000 to provide incentives to builders to assist in addressing the affordable housing supply. The goal was to stimulate the production of new housing that is Safe, Mixed-Income, Accessible, Reasonably Priced and Transit Oriented. All of our S.M.A.R.T. Housing meets Austin Energy's Green Building standards as well.

The implementation of S.M.A.R.T. Housing has been a tremendous success for our city. Both fee waivers and fast-track review are offered as incentives to builders and developers to turn vacant property into reasonably priced housing in a relatively quick time frame. This not only equates to more housing stock for our community, it also increases the city's tax base.

Since its inception, S.M.A.R.T. Housing production has exceeded the performance goals we set annually. The S.M.A.R.T. Housing Policy Initiative continues to receive national recognition and interest, most recently with requests for information from national newspapers, invitations to speak at national symposiums, and a Congressional appropriation of $100,000 to expand the program.

In addition, we have seen benefits for both the city and the homeowner, including increased diversity in housing developments, energy savings for homeowners and renters living in S.M.A.R.T. Housing homes (estimated at $525 annually for single family homeowners), improved notification and involvement of neighborhoods where S.M.A.R.T. Housing developments are located, use of surplus city property for S.M.A.R.T. Housing development, and Affordability Impact Statements for decision-makers that describe the possible impact of proposed ordinances and rules on housing affordability before proposed legislation is enacted.

S.M.A.R.T. Housing Production

	Complete	**Currently Under Construction**	**Certified**
Single Family	436	242	6,364
Multi-Family	1,356	493	8,288
TOTALS	**1,792**	**735**	**14,652**

IV. INCREASING LOCAL INVESTMENTS FOR HOUSING

One of the key elements of our local housing efforts is an increased commitment from the local government to make significant investments of general fund dollars to support housing production and preservation. The City of Austin has invested $5 million over the past four years, a dramatic increase in the funds available to assist in the implementation of this comprehensive strategy. The city has also provided a direct appropriation to support the administrative operation of the Neighborhood Housing and Community Development Department of just over $1 million per year.

Since the adoption of the S.M.A.R.T. Housing Policy Initiative, the City Council has provided $1 million annually for a Housing Trust Fund. The Housing Trust Fund was created for the use of preserving and creating reasonably priced housing. A cumulative funding allocation of $4 million dollars has been used to provide gap financing for several multi-family projects. Three out of every four Housing Trust Fund dollars are dedicated to the construction of new rental units for families at or below 50% Median Family Income, the families in our city with the greatest housing needs and that are most vulnerable to local gentrification pressures.

In addition, for the past two years the City Council has provided $3 million of general fund revenue annually for a S.M.A.R.T Housing Capital Improvement Program. This allocation provides funding for the review team that provides special review for all S.M.A.R.T. Housing development, and

provides more flexible resources than our federal funds for the acquisition of property for future S.M.A.R.T. Housing development.

V. ESTABLISHING A LOCAL HOUSING PRODUCTION ENTITY: THE AUSTIN HOUSING FINANCE CORPORATION

The Austin Housing Finance Corporation (AHFC) was created in 1979, as a public, nonprofit corporation and instrumentality of the City of Austin under the provisions of the Texas Housing Finance Corporation Act, Chapter 394, and Local Government Code. The Austin City Council serves as the AHFC's Board of Directors. The AHFC's mission is to generate and implement strategic housing finance solutions for the benefit of low- and moderate- income residents of the City of Austin. The AHFC's primary functions are to:

- Issue single-family and multi-family bonds for the financing of reasonably priced housing;
- Assist the city in the delivery of reasonably priced housing programs using HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) funds granted to the city by the U.S. Department of Housing and Urban Development (HUD).

The housing programs are administered under an annual contract between the City's Neighborhood Housing and Community Development Office and AHFC.

VI. DOWN PAYMENT ASSISTANCE: AN EFFECTIVE TOOL IN A LOCAL STRATEGY FOR HOUSING

The City of Austin's Down Payment Assistance Program (DPA) provides deferred zero interest loans to assist with the down payment and closing costs in the city's housing continuum, described earlier. The loan is non-amortized, non-assumable, non-interest bearing, and secured by a lien on the property. The loan is repaid at the time the owner sells the home, refinances, pulls equity from the property, transfers title, or moves out of the property. Repaid funds are used to help future homebuyers in the program. H.R. 1276 would help the city provide more resources to assist families with their down payment needs through this highly successful program.

DOWN PAYMENT ASSISTANCE PROGRAM RESULTS

- In the past 5 months, an average of **five** families a week have become homeowners;
- An average amount of $10,200 in down payment and closing cost assistance is provided to each household; and
- In the past 3 years, 619 households have been assisted by this program

SUCCESSES

Austin's partnership with the lending community is the backbone for the success of DPA. This includes marketing the program to our lending community and educating local realtors, builders and non-profits of the benefits of the program to consumers. Additionally, the city requires that all participants in the DPA attend a homebuyer education class prior to closing on the property. This assists in homebuyers understanding the responsibility of homeownership, and ultimately contributes to the success of the program.

We continue to improve the program through such recent efforts as streamlining the loan disbursement process, tightening program administration, improving the application review process, and providing greater outreach in priority neighborhoods.

CONCLUSION

While the City has initiated innovative programs for creating additional housing opportunities, several areas of concern confront us as we try to develop reasonably priced housing for our community. Specifically, we have identified the following challenges as we continue our efforts to eliminate barriers to affordable housing:

- the decreasing availability of buildable lots with clear title, at a reasonable price;
- the softening of the rental (multi-family) market; and
- promoting the revitalization of neighborhoods through equitable development that mitigates the pressures of gentrification.

We are very happy to have additional resources available to us, such as the down payment assistance provided for in H.R. 1276. I would be happy to provide the committee with additional information on any of the programs mentioned above, or answer and questions related to this testimony. Thank you, once again, for asking me to testify on this important legislation.

STATEMENT OF MEL MARTINEZ
SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY OPPORTUNITY

APRIL 8, 2003

Chairman Ney, Ranking Member Waters, Distinguished Members of the Committee:

Thank you for the invitation to join you this afternoon. I appreciate this opportunity to outline the American Dream Downpayment Initiative. The Initiative is a powerful tool for increasing homeownership, and President Bush has proposed expanding its reach in Fiscal Year 2004 by increasing funding to $200 million.

Mr. Chairman, I applaud your leadership in calling this hearing.

I want to commend my fellow Floridian – Congresswoman Harris – for introducing H.R. 1276. Her bill has earned the support of 35 cosponsors from both sides of the political aisle, reflecting the point I often make that housing is a non-partisan issue – one that crosses the lines of politics and party.

Homeownership is a cornerstone of America, and the President and I are committed to helping more families know its many – and profound – benefits.

For families, homeownership represents the path to prosperity. Americans see a home not only as shelter, but also as a safe investment, and one that can be leveraged to finance other priorities, such as starting a business or sending a child to college. Homeownership creates stakeholders who make their communities stronger by involving themselves in local activities.

The implications of large-scale homeownership reach well beyond the benefits to individual families and communities, of course: homeownership is a powerful economic force for the entire nation.

Where many sectors of the economy have performed below expectations over the past two years, the housing market has remained extremely strong. Housing was key to bolstering our economy in the months following the terrorist attacks of September 11, 2001. Housing helped to cushion many areas of the country from recession, as home sales and refinancings pumped hundreds of billions of dollars into the economy.

As a result of the exceptionally strong housing market and the best financing conditions available in decades, more Americans own homes today than at any time in our history: 68.3 percent of all Americans are homeowners. Yet, we see a persistent and troubling gap between the homeownership rates of minorities and non-minorities. By a significant margin, minority families are less likely to own their own homes – less than 50 percent for African-Americans and Hispanics.

Eliminating the minority homeownership gap is one of this Administration's top priorities... and a responsibility fundamental to HUD's mission as the nation's housing agency.

Last year, the President announced an initiative to remove the barriers that block American families from achieving the American Dream of homeownership. By making homeownership easier for all Americans, we hope to create 5.5 million new minority homeowners by the end of this decade. HUD responded by launching our Blueprint for the American Dream Partnership, and every segment of the housing industry has joined with us to help meet the President's challenge.

The Administration and its partners are focused on removing the barriers that block too many families from achieving the American Dream of homeownership. These barriers include a lack of financing options for low-income families, a lack of information about the homebuying process, a lack of affordable housing in some communities. The Administration's homeownership agenda is dismantling these barriers to homeownership by proposing a new FHA mortgage product, increasing support for homeownership education programs, simplifying the homebuying process, and increasing the supply of affordable homes.

The barrier we are specifically addressing through the American Dream Downpayment Initiative is high down payments and closing costs. Coming up with enough cash to pay the upfront costs of homeownership is often the single greatest barrier to buying a home. In Fannie Mae's 2002 National Housing Survey, a high down payment was the barrier most frequently cited by those polled; 32 percent of Americans said they would have major difficulties making a down payment.

The lack of savings is a problem for many lower-income and minority families. Oftentimes, the transfer of family assets from parents to their children can mean the difference in whether a family can buy a home. These intergenerational wealth transfers serve to boost homeownership by helping many younger families afford their first home.

In many cases, however, lower-income and minority families simply lack the accumulated wealth that can provide for down payment and closing costs. To help families overcome this barrier to homeownership, the Administration proposed the American Dream Downpayment Initiative for FY 2002, and is asking the Congress to boost its funding level to $200 million for FY 2004.

The President's commitment to lifting families into homeownership through down payment assistance dates back to his 2000 campaign. The American Dream Downpayment Initiative fulfills one of his long-standing housing goals.

The Initiative is housed within the HOME Investment Partnerships program, which helps communities across the country expand the supply of decent, affordable housing. American Dream Downpayment Initiative grants will be awarded to state and local governments to assist low-income, first-time homebuyers with closing costs and down payments. To receive assistance, families must have annual incomes that do not exceed 80 percent of the area median income.

We anticipate that the Initiative will help make homeownership a reality for 40,000 families annually, providing an average subsidy of $5,000. Although the American Dream Downpayment Initiative is not targeted specifically at minorities, we believe it will be particularly effective at reaching minority populations, based upon the history of the HOME program. Today, fully 55 percent of the families helped by HOME are minorities.

Congress appropriated $75 million for the American Dream Downpayment Initiative for the current fiscal year. I thank the Members for doing so. As a result of your support, 15,000 families who have perhaps only dreamed of homeownership will soon have homes of their own. We expect to complete the rulemaking process within the next few months and have the entire $75 million appropriation delivered by the end of Fiscal Year 2003.

The Congress now has an opportunity to build on its commitment and guide even more families toward the American Dream of homeownership. I urge the Committee to fund the American Dream Downpayment Initiative at $200 million as requested by President Bush.

As always, I welcome your guidance as we continue our work together.

Thank you.

WRITTEN STATEMENT OF CRAIG NICKERSON

VICE PRESIDENT, COMMUNITY DEVELOPMENT LENDING

FREDDIE MAC

BEFORE THE SUBCOMMITTEE ON

HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

APRIL 8, 2003

Good afternoon Chairman Ney, Congresswoman Waters and Members of the Subcommittee. It is a pleasure to be here. My name is Craig Nickerson. I am Vice President of Community Development Lending at Freddie Mac.

Freddie Mac's Mission

Freddie Mac is a shareholder-owned corporation chartered by Congress to create a stable flow of funds to mortgage lenders in support of homeownership and rental housing. Since our inception in 1970, Freddie Mac has purchased more than $2 trillion in residential mortgages, financing homes for more than 30 million families.

To achieve our mission, Freddie Mac attracts capital from around the world to finance housing in America, and we constantly innovate to deliver it as effectively as possible. Mortgage funds are available whenever and wherever they are needed. Mortgage rates are lower, saving homeowners thousands of dollars in interest payments. Thirty-year fixed-rate mortgages are plentiful, protecting families against unexpected interest-rate increases. In addition, the availability of low-down payment loans has helped open the door of homeownership to millions of low- and moderate-income families.

The high level of support provided by Freddie Mac and the secondary mortgage market has produced the best housing finance system in the world. The nation's homeownership rate has reached a record high, with more families of all racial and ethnic backgrounds owning homes than ever before. Still, less than half of America's minority households have achieved the dream of homeownership.

To accelerate the growth in minority homeownership, in 2002 Freddie Mac launched an innovative and comprehensive program called *Catch the Dream.* Many families face significant barriers to homeownership, including a lack of information about the homebuying process, impaired credit, insufficient funds for down payment and a shortage of affordable housing. Our 25 *Catch the Dream* initiatives seek to dismantle these and other barriers. The initiatives range from best-in-class homebuyer outreach and education to new technologies and mortgage products designed to put families into homes they can afford and keep. Representing a team effort with mortgage lenders, nonprofit housing and community organizations, and other industry leaders, *Catch the Dream* is Freddie Mac's contribution to making the dream of homeownership a reality for 5.5 million more minority households by the decade's end.

Given our focus on dismantling barriers to homeownership, Freddie Mac welcomes the legislation put forth by Representatives Harris and Rogers. By providing $200 million of down payment assistance in 2004 and 2005, H.R. 1276 will allow thousands of additional underserved families to share in the American dream of homeownership. More than 500 states and local jurisdictions would be eligible to receive the $200 million in grant funding. The program will be administered under the Department of Housing and Urban Development's (HUD) Home Investment Partnerships Program (HOME), an existing

grant program that benefits communities nationwide by increasing the availability of affordable housing.

Building Wealth Through Homeownership

An enduring symbol of core American values, homeownership provides significant benefit to families, neighborhoods and to the nation. Owning a home provides a sense of security and contributes to safer, stronger communities. Homeownership also enhances the educational attainment of children and contributes to a family's ability to create wealth. For low- and moderate-income homeowners, in particular, home equity represents a significant share of household net worth.

Paradoxically, in order to build wealth through homeownership, borrowers must first accumulate some amount of wealth for a down payment. This contribution of borrower funds is a significant factor in virtually every lending decision. For years, mortgage research has shown that a borrower with a financial stake in the property is less likely to default. Until the mid-1990s, down payments on low-cost conventional mortgages averaged around 20 percent of the loan balance. Many families had to postpone homeownership for years while they worked to accumulate such a sizeable down payment.

Growing understanding of the default risk associated with mortgages – combined with greater ability to assess and manage it – has significantly reduced down payment requirements. Much of the credit goes to automated underwriting systems, such as Freddie Mac's Loan Prospector service, which is able to analyze a multitude of risk factors simultaneously. Today, many home purchase loans carry down payments of 5 percent or less, depending on the borrower's credit standing and other factors. Targeted programs, such as Freddie Mac's suite of affordable mortgage products require down payments ranging from zero to 3 percent. Many of Freddie Mac's affordable products offer borrowers greater flexibility on payment ratios, reserve requirements and credit history. In addition, most permit a variety of down payment sources, including loans from relatives, grants, gifts and lender financing

Freddie Mac's experience with innovative financing arrangements such as these indicates that the *size* of the down payment is more important to the long-term success of the loan than the actual *source* of the down payment funds. That is, whether a down payment is from a gift or grant or borrower savings, the probability of default is largely the same. Borrowers are far more likely to stay current with their mortgages when real money is at stake. Our experience also tells us that "a little goes a long way." Many borrowers simply need a boost of confidence to pursue homeownership – a boost that comes from having a few extra thousand dollars for unforeseen costs and expenses.

Down Payment Remains a Key Barrier

Despite the dramatic reduction in down payment requirements – and the growing use of alternative funds – out-of-pocket costs remain a major deterrent to homeownership,

according to a recent study by Susan Wachter, Wharton School professor and former Assistant Secretary of Policy Development and Research at HUD. The study found that compared to the monthly mortgage payment, the down payment is three times more constraining on borrowers' ability to purchase a home.[1] In addition to the down payment, families must have adequate funds for closing costs, which often average between 2 percent and 4 percent of the loan balance. Finally, families must demonstrate adequate reserves to cover the inevitable upkeep and repair associated with homeownership.

The out-of-pocket costs associated with homeownership can be particularly daunting for lower-income and minority families who have limited savings and receive little or no assistance from their parents. According to the Federal Reserve Board's Survey of Consumer Finances, the median wealth of African-American and Hispanic households is less than one-fifth the median wealth of white households. The combination of low wealth, a lack of awareness of low down payment financing opportunities, and anxiety arising from a thin financial safety net causes many families to delay homeownership or give up the dream of owning a home altogether.

H.R. 1276 Will Help More Underserved Families Achieve Homeownership

The American Dream Downpayment Act represents a substantial commitment to address these issues. Assuming an average subsidy of $5,000, the American Dream Down Payment Fund would enable up to 40,000 families to become new homeowners each year. H.R. 1276 would particularly benefit low-income and minority families. Based on the Wachter analysis, Freddie Mac estimates that the provision of a 3 percent down payment would increase the share of rental households otherwise qualified to become homeowners by as much as 5 percentage points. Among African American and Hispanic renters, however, it would increase homeownership potential by 8.4 percentage points and 9.0 percentage points respectively. Increases such as these will play an important role in helping boost the number of minority homeowners by 5.5 million by the end of the decade.

H.R. 1276 establishes the American Dream Downpayment Fund as part of HUD's HOME Investment Partnerships Program, a successful entitlement grant program that helps communities expand the supply of standard, affordable housing for low- and moderate-income households. The HOME Program is widely recognized by leaders in the housing and mortgage finance industries as an efficient, flexible means by which state and local governments can design and implement affordable housing initiatives tailored to a community's specific needs.

Placement of the $200 million American Dream Downpayment Fund in the HOME Program would permit participating jurisdictions to use the new resources quickly and effectively. Requirements for undertaking a homeownership initiative with HOME Program funding are already well understood by participating jurisdictions. These

[1] "The Impact of Affordable Lending Efforts on Homeownership Rates." Roberto G. Quercia, George McCarthy, Susan Wachter, 2002.

requirements include property eligibility, borrower income, post-assistance owner residency, minimum property code standards, property values, and resale or recapture provisions. Since the inception of the HOME Program over a decade ago, a number of statutory and administrative improvements have made this affordable homeownership program increasingly workable.

In addition to providing enhanced HOME program funds, a provision of H.R. 1276 will ensure greater effectiveness of down payment assistance programs going forward. The Uniform Relocation Act, which protects tenants being displaced from properties being renovated or demolished with federal funds, currently applies to all affordable housing activities undertaken under the HOME Program. This requirement is appropriate when federal funds are being used by participating jurisdictions for rental housing development or for construction or renovation of single-family housing. However, the applicability of the Uniform Relocation Act to down payment assistance is less clear and has deterred many jurisdictions from undertaking a down payment assistance program. The American Dream Downpayment Fund clarifies that the Uniform Relocation Act does not apply to down payment assistance under this title.

Every effort should be made to ensure that the $200 million made available under this bill reaches the participating jurisdictions that are most focused on expanding affordable homeownership. H.R. 1276 accomplishes this goal by requiring HUD to allocate the resources using a formula based on community need and the past homebuyer assistance efforts of the participating jurisdiction. In this way, localities that have devoted HOME and Community Development Block Grant resources to ownership programs and have a strong track record of assisting first-time homebuyers would receive proportionately more of the proposed down payment assistance.

Perhaps the most important element of the proposed American Dream Downpayment Fund is the inherent flexibility in the use of the assistance. Localities can determine the amount of assistance for participating households, and determine whether it is used solely for the down payment or also for closing costs.

In summary, enhanced funding for down payment assistance will help many underserved families surmount a key barrier to homeownership. Used creatively at the local level, these funds can overcome a key barrier to owning a home – a lack of sufficient cash for down payment and closing costs. When coupled with flexible mortgage products from Freddie Mac and mortgage lenders and quality homebuyer counseling, the American Dream Downpayment Program will expand first-time homeownership opportunities for thousands of underserved families in a responsible and sustainable manner. In reducing the homeownership gap, H.R. 1276 will help address the wealth gap as new homeowning families are able to build equity for themselves, their children and their future.

NCSHA

Testimony on the American Dream Downpayment Initiative
before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
by
Barbara J. Thompson
Executive Director
National Council of State Housing Agencies

April 8, 2003

Chairman Ney, Representative Waters, and members of the Subcommittee, thank you for this opportunity to testify. I am Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA).

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds (Housing Bonds), allocate the Low Income Housing Tax Credit (Housing Credit), and administer HOME Investment Partnerships (HOME) funds in nearly every state to finance affordable homeownership and rental housing for America's low-income families.

State HFAs are committed to making low-income families homeowners. Each year, HFAs help tens of thousands of low-income families buy their first homes through the creative combination of a variety of federal and state resources. NCSHA supports state HFA homeownership efforts by working in Washington for more affordable housing resources and the rational regulation of those state HFAs already have.

NCSHA is grateful to the Congress and the Administration for your support of affordable homeownership initiatives and resources. I believe we would all agree, however, that more could be done to expand homeownership among low-income families, including the commitment of additional federal resources.

For that reason, we commend the Administration's homeownership agenda, including the goals of the Administration's American Dream

Downpayment Initiative. However, we do not support the establishment of this program as a set-aside within HOME, as the Administration and H.R. 1276 propose.

State HFAs Are Committed to Homeownership

HFAs understand the value of homeownership for all families in America. They are devoted to making it a reality for those of limited means.

Central to state HFA homeownership efforts is the Mortgage Revenue Bond (MRB) program. State HFAs have issued nearly $170 billion in MRBs to finance more than 2.3 million below-market interest rate mortgages for lower-income first-time homebuyers. Each year, more than 100,000 families buy their first home with an MRB mortgage. In 2001, the average MRB homebuyer earned just 67 percent of the nation's median income.

In addition to using MRBs to reduce the monthly costs of homeownership, state HFAs use them to overcome the down payment hurdle that often presents another barrier to homeownership for low-income families. Many HFAs sell MRBs at a premium to obtain increased proceeds for providing down payment and closing cost assistance to homebuyers that need it.

State HFAs offer low-income families other assistance to help them achieve and sustain homeownership. They provide non-MRB down payment and closing cost help; soft second mortgages; lease-to-own options; acquisition, rehabilitation, home improvement, and construction financing; and homebuyer education and counseling.

HFAs use a multitude of resources to finance these activities. One of the most important is HOME. Other sources include Mortgage Credit Certificates, FHA insurance, Rural Housing Service assistance, Temporary Assistance for Needy Families (TANF) funding, Section 8 vouchers, state trust funds, taxable bonds, and state general funds.

More Federal Support Is Needed ...

NCSHA and our member State HFAs are grateful for Congress's support of HOME, MRBs, and the other federal resources upon which state HFAs rely to make homeownership possible for low-income families. Congress has steadily, though modestly, increased HOME funding and recently increased by half the Bond cap that limits MRB issuance.

The most significant step Congress could take to expand low-income homeownership is to repeal the MRB Ten-Year Rule and update the MRB purchase price limits that deny tens of thousands of families their chance at homeownership annually. Eighty-two percent of the last Congress cosponsored legislation containing these changes. If you have not cosponsored identical legislation, H.R. 284, this year, we ask you to join Chairman Ney and the 175 other House members who have and help enact it in a tax bill soon.

The Ten-Year Rule alone costs states more than $3 billion annually in low-cost MRB mortgage money that would otherwise be available to help working families buy their first home. The Ten-Year Rule forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years rather than fund new mortgages to low-income families. Ohio loses $450,000 daily in MRB mortgage money to the Ten-Year Rule; California forfeits more than $1 million every day.

NCSHA also seeks Congress's help in protecting MRBs from unintended harm from the Administration's growth and jobs plan's dividend exclusion proposal. Though NCSHA is not opposed to the Administration's plan, we are concerned that if enacted as proposed, it would drive up Bond interest rates, imposing increased home purchase costs on those low-income families least able to afford them.

NCSHA also appreciates the Administration's efforts to expand low-income and minority homeownership through its Blueprint Partnership. NCSHA supports the Administration's proposed single-family affordable housing tax credit and is working aggressively as part of a coalition of Washington housing organizations to achieve its enactment. We also support the Administration's proposed housing counseling funding increase and its transfer out of HOME, Housing Choice Voucher Homeownership program, and new FHA financing options.

... But Not through HOME Set-Asides

NCSHA does not support, however, the Administration's American Dream Downpayment program as a set-aside within the HOME program.

Congress designed HOME as a block grant to allow states and localities, not Washington, to determine how to use HOME funds to best meet their affordable housing needs. Setting aside HOME funding for a single,

Washington-prescribed purpose, irrespective of state and local judgment of housing need, is contrary to the purpose and spirit of HOME.

States and localities already can and do use HOME funding to support homeownership when they determine it is the best use of their limited funds. In fact, they have used HOME funds for homebuyer activities in nearly 40 percent of all HOME-assisted units.

Congress does not need to create a down payment set-aside within HOME to help more low-income families become homeowners through HOME. It needs to increase HOME funding. This Subcommittee could help HOME most by substantially increasing its authorization level and working with your colleagues on the HUD Appropriations Subcommittee to achieve increased funding.

Though Congress has provided modest HOME funding increases over the years, HOME just achieved in FY 2003 its 1990 authorization level of $2 billion. And, inflation has taken its toll. Congress would have to provide $2.9 billion in HOME funds just to achieve the funding Congress believed necessary to achieve HOME's objectives when it created the program 13 years ago.

Some argue the proposed $200 million for the down payment set-aside is 'new' HOME money—funding that Congress would not otherwise allocate to HOME. We believe a dollar available for the down payment set-aside is a dollar Congress could invest in HOME without restriction.

Appropriators made our point in FY 2002 when they directed the $50 million they appropriated for the down payment set-aside to revert to unrestricted HOME funding in the event Congress did not authorize the set-aside. Though Congress ultimately rescinded that money to help finance a supplemental appropriation, appropriators originally intended it to supplement state and local HOME funding.

We are also concerned Congress would fund the set-aside this year or in future years within HOME's current or even a reduced HOME appropriation. (The Administration itself in its FY 2002 Budget proposed to reduce HOME funding by $200 million to finance the down payment set-aside.) Though last year this Subcommittee worked to avoid such an outcome in authorizing the set-aside as part of the Housing Affordability for America Act of 2002, H.R. 3995, the language you adopted would not have prevented appropriators from reducing state and local HOME funding or forgoing HOME funding increases to finance the set-aside.

Creating yet another HOME set-aside continues an already alarming trend. Currently, HOME has housing counseling, technical assistance, and management and information systems set-asides. Though the Administration recommends removing the counseling set-aside, it proposes adding a lead hazard reduction set-aside in addition to the down payment set-aside. If the Administration and Congress continue down this set-aside road, HOME as we know it would be replaced by a laundry list of Washington priorities, which would ultimately undermine the success and efficiency of the program, as well as its support.

HOME is not a bank. If the Administration believes a federal down payment program is necessary, it should propose it as a freestanding program and let Congress decide whether it deserves authorization and funding. It should not attempt to ride on the coattails of the very successful HOME program.

Set-Asides Are the Problem

NCSHA is not uniquely opposed to the down payment set-aside. We oppose any and all set-asides that limit the flexibility Congress intended to provide state-administered federal programs such as HOME. For this reason, we applaud the Administration's effort to move the counseling program outside of HOME.

The bipartisan, congressionally chartered Millennial Housing Commission summed up NCSHA's view well when in its report it cited HOME's flexibility as key to its success. After extensively evaluating federal housing programs, the Commission concluded, "housing programs must be flexible enough in implementation to enable local actors to tailor federal resources to local needs." It further found that HOME is "to a large degree, highly successful precisely because [it was] designed with flexibility in mind."

The National Governors Association (NGA) shares NCSHA's view that set-asides are counterproductive to meeting local needs. NGA's recently adopted 2003-2005 affordable housing policy encourages the federal government "to support flexibility and state discretion in housing programs." It explicitly opposes "legislatively mandated set-asides in programs such as HOME" because they "limit financial resources for state-determined priorities."

In addition to NGA, the Council of State Community Development Agencies, the National League of Cities, the National Association of Housing and Redevelopment Officials, the National Coalition for the Homeless, and the

American Association of Homes and Services for the Aging are on record opposing the down payment set-aside. With this testimony, NCSHA submits for the record a statement we and these groups sent Congress last year communicating our concerns.

Down Payment Assistance Allocations Must Be Fair

If you authorize the down payment assistance program, we urge you to direct HUD to base funding allocations on need and not also on a jurisdiction's prior commitment to homebuyer assistance. Why should jurisdictions that directed scarce housing dollars to meet other affordable housing needs they judged more urgent be penalized under this program? Are they not the very jurisdictions HUD would like to invest more—not less—in homeownership?

As a practical matter, how could HUD possibly evaluate a jurisdiction's total commitment to homebuyer assistance? HUD believes it could not. HUD has told NCSHA it has chosen to take only HOME and CDBG activities into account in judging prior state and local government homebuyer investment because it cannot measure a jurisdiction's total commitment with precision.

This unfair approach ignores jurisdictions' MRB, state funding, and other homebuyer investments. It also ignores this Committee's directive in its September 17, 2002 report accompanying H.R. 3995, which said:

> The Committee is concerned that, when establishing a downpayment assistance allocation formula pursuant to the American Dream Downpayment program, the HUD Secretary will base a participating jurisdiction's prior commitment to homebuyers solely on that jurisdiction's use of HOME Investment Partnerships program funds for homebuyer activities. HOME program funds committed to homebuyer activities may not accurately reflect a jurisdiction's total commitment to homebuyer activities, as there are other Federal, State, and local resources that jurisdictions use for such activities.
>
> Further, the Committee believes that a formula based solely on a jurisdiction's use of HOME funds for homebuyer activities is contrary to Congress' intent that participating jurisdictions have discretion in how to use HOME funds to meet locally determined housing needs. To the extent a formula bases future down payment assistance allocations on future HOME spending on homebuyer activities, that formula may unduly interfere with the

> flexible nature of the HOME program, which has been its greatest strength. The Committee intends to reward jurisdictions that support homeownership.

A formula that takes into account prior homebuyer investment also creates an incentive for grantees to allocate more HOME and CDBG funds to homeownership and away from other priorities to obtain larger future down payment assistance.

We urge you to reject the down payment set-aside. We encourage you to work instead to enact other initiatives which would have a more significant impact on low-income homeownership without threatening the successful HOME program.

Attachment

Oppose Creating a HOME Set-Aside for Down Payment Assistance

The undersigned representatives of state and local governments, nonprofit community development organizations, and other affordable housing advocacy groups oppose the HOME down payment set-aside proposed in the American Dream Downpayment Act, H.R. 4446, and contained in the revised version of H.R. 3995, the Housing Affordability for America Act, the Housing and Community Opportunity Subcommittee will mark up on June 18.

The HOME Investment Partnerships Program is one of the most important tools states, local governments, and their nonprofit and private sector partners have to respond flexibly to their unique and diverse affordable housing needs. When Congress created HOME more than a decade ago, it rejected the Washington-knows-best housing solutions of the past. Congress designed HOME as a block grant, leaving it up to states and localities to determine how to most effectively employ HOME funds to respond to their most pressing needs.

Contrary to the spirit of HOME, H.R. 4446 authorizes Congress to set aside $200 million in HOME funds annually for allocation to state and local HOME administrators solely for down payment activities, without regard to their jurisdictions' identified affordable housing needs. H.R. 4446 directs the HUD Secretary to distribute these funds under a formula based in part on a jurisdictions' prior commitment to homebuyer assistance, thereby penalizing PJs that use fewer HOME dollars for homebuyer assistance and encouraging them to prioritize homebuyer assistance over other locally determined housing needs.

The Millennial Housing Commission (MHC) specifically cites HOME's flexibility as key to its success. After extensively evaluating federal housing programs, the MHC concluded that "housing programs must be flexible enough in implementation to enable local actors to tailor federal resources to local needs." It further found that HOME is "to a large degree, highly successful precisely because [it was] designed with flexibility in mind." This set-aside flies in the face of the MHC's conclusion.

The down payment set-aside is not only corruptive of HOME it is redundant to it. Down payment assistance is already a HOME-eligible activity. State and local HOME administrators invest substantial amounts of HOME formula grant funding in down payment and other homebuyer programs when they judge those activities to be the best use of their HOME funds. In fact, over the life of the program, units receiving homebuyer assistance have accounted for nearly 40 percent of all HOME-assisted units. Jurisdictions also have invested substantial

amounts of other housing assistance, such as Mortgage Revenue Bonds (MRBs), TANF funds, and state housing trust funds, in homebuyer programs when they determine those to be the most effective sources of homebuyer support.

Some argue that the proposed $200 million set-aside is "new" HOME funding that will not reduce current HOME formula grant funding. Yet, nothing in the bill prevents Congress from setting aside up to $200 million for the down payment program within the current HOME appropriation or even a reduced HOME appropriation.

If Congress is able to increase HOME funding above its current $1.8 billion funding level, we urge it to allocate those funds to the HOME state and local formula grant, which has been severely under funded since HOME's creation. Congress would need to fund HOME at $2.9 billion just to achieve HOME's original authorization level, after taking account of inflation.

We applaud efforts to increase homeownership among America's lower income families. We believe that the best way to accomplish it is to increase funding for programs like HOME and MRBs, which have been so effective at achieving it. We urge you to reject the HOME down payment set-aside.

American Association of Homes and Services for the Aging
Council of State Community Development Agencies
National Association of Housing and Redevelopment Officials
National Coalition for the Homeless
National Council of State Housing Agencies
National League of Cities

June 17, 2002

Statement Submitted by the

Consumer Mortgage Coalition

House Financial Services Subcommittee on Housing and Community Opportunity

April 8, 2003

The Consumer Mortgage Coalition, a trade association of national residential mortgage lenders, servicers, and service providers, is pleased to submit a statement in support of the American Dream Downpayment Act.

The American Dream Downpayment Act will help foster one the country's most important social goals: homeownership. Homeownership is a key factor in allowing Americans to build wealth and, in turn, helps to foster a "stakeholder society" with greater civic awareness and participation.

The record homeownership levels in this country hide some troubling facts. Only 47 percent of African Americans and 48 percent of Hispanics own their homes. Only 41 percent of young families starting out (under 35 years of age) own their homes. Too often, those would-be first-time homebuyers are prevented from entering the mainstream of American life because of high closing costs and downpayment requirements, a barrier to homeownership that is often difficult to overcome.

The American Dream Downpayment Act will help turn some of those troublesome numbers around by targeting direct assistance to those most in need to overcome this threshold problem.

This legislation builds upon an existing program, the HOME program, which helps communities across the country expand the supply of decent, affordable housing, Through the existing flexibility of the HOME program, grants will be awarded to state and local governments to help eligible families with closing cost and downpayment assistance.

When both of these programs are then combined with the Administration's efforts to reduce dramatically closing costs by eliminating outdated regulatory barriers that impede competition from driving closing costs lower, the dream of homeownership will be reachable and realized by many more Americans. By opening the door of homeownership to more families, some troubled neighborhoods will stabilize and others will be revitalized.

NATIONAL ASSOCIATION OF REALTORS®
Statement before the Subcommittee on Housing and Community Opportunity
"Promoting the American Dream of Homeownership through Down Payment Assistance"

On behalf of more than 880,000 members of the NATIONAL ASSOCIATION OF REALTORS®, we are pleased to submit this written statement promoting homeownership and housing opportunities. The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Subcommittee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

We commend the Subcommittee for its continuing efforts on behalf of American families who need and desire affordable housing opportunities. Even today, where we have seen the greatest boom in homeownership rates, many working families are not able to find decent affordable housing. The NATIONAL ASSOCIATION OF REALTORS® has consistently maintained that homeownership serves as a cornerstone of our democratic system of government and that homeownership continues to be a strong personal and social priority in the United States. Living in one's own home is central to the concept that a person has achieved a measure of security and success in life.

With one out of seven families in the nation facing critical housing needs and low- and moderate-income working families virtually shut out of the housing market, the NATIONAL ASSOCIATION OF REALTORS® commends Representatives Katherine Harris (R-FL) and Mike Rogers (R-MI) for introducing H.R.1276 The American Dream Downpayment Act which will provide assistance permitting 40,000 families a year to buy their first home. The initiative would provide grants to states and local governments under the Department of Housing and Urban Development's HOME Investment Partnership program. Enacted into law by Congress in 1992 the HOME program has successfully helped to expand the supply of decent, affordable housing for deserving families by providing funds to communities to address housing shortages and needs.

The NATIONAL ASSOCIATION OF REALTORS® has long recognized that the ability to afford a home remains the most challenging hurdle for many homebuyers, and we wholeheartedly support legislation that reduces homebuying costs and helps people achieve the American dream of homeownership. H.R.1276 is good, sound legislation that will not only stimulate new housing opportunities but will also help to sustain the momentum in our nation's housing boom.

It is no coincidence that once people obtain the American dream of homeownership, they are in a position to reap favorable financial rewards. This is because homeownership is the primary

source of a household's net worth and the fundamental first step toward accumulating personal wealth. At the urging of Federal Reserve Chairman Alan Greenspan, in 2001 NAR examined the wealth effect of housing and determined that home equity is the largest source of wealth for 3 out 4 homeowners. Additionally, our research determined that gains realized by homeowners from the sale of their homes average $30,000 - $35,000, and between 76 and 85 percent of those gains are reinvested for the next home purchase.

As we look forward, change is on the horizon that challenges Congress, the Administration and the real estate industry to step forward and collectively produce favorable and responsible public policies that continue to promote homeownership, provide real estate investment opportunities and protect the free market system to further America's growth and prosperity.

For example, our U.S. population will continue to expand, reaching 310 million by 2010 and 340 million by 2020, supporting strong housing demand. In each year of this new decade, we anticipate between 1.1 million and 2.1 million new households will form. Baby Boomers, born between 1946 and 1964, will be the prime market for trade-up, upscale and vacation homes. Their children will be the main source of future homeownership growth, particularly as they begin looking for starter homes after 2010. In fact, we expect 7.6 million people between the age of 25-34, and 6.7 million aged 35-44, will represent the greatest growth in homeownership through 2010. Because of the expected increases in population, we believe homeownership will surpass 70 percent by 2010.

But, the biggest source of household growth in this decade will come from minorities and immigrants. Very simply, minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for 44 percent of homeownership growth while accounting for 25 percent of all households.

By 2010, African-Americans will account for 19 percent of household growth; Hispanics will account for 38 percent; and other non-white minorities will account for 37 percent. The creation of these additional households will require more home construction as well as favorable economic conditions to lure potential homebuyers. The real estate industry and our federal policymakers have a responsibility and obligation to ensure these groups are not ignored in their quests for housing opportunities.

Chairman Ney and members of the Subcommittee, this is why the National Association of REALTORS® is committed to ensuring that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. We have launched a new Housing Opportunity Program aimed at making a commitment and sharing responsibility for the health and well-being of our communities nationwide. Soaring housing values have made the housing sector the brightest light in a gloomy economy. But, it has also put affordable housing beyond the reach of millions of American families. Today's housing costs are dividing America into two nations, one of "housing haves" – families that purchased property before the price explosion or who can afford high prices – and another of "housing have nots", families who must scale down their expectations and make lifestyle sacrifices to afford adequate shelter.

Not only is the NATIONAL ASSOCIATION OF REALTORS® addressing the problem in a comprehensive manner, but we are challenging each of the REALTORS® organization's 1600 local and state boards and associations to develop their own affordable housing project or housing opportunity response. And, several have taken steps to make a difference and make the American dream a reality in their communities. For example, the California Association of REALTORS® has created its Housing Affordability Fund with the goal of raising $20 million over the next five years to promote homeownership and address housing affordability issues throughout California. In Fort Collins, Colorado REALTORS® initiated an awareness campaign in 2001 to draw attention to the lack of affordable housing in its community and the fact that a majority of its workforce cannot afford to live where they work. Today, city planners, business leaders and REALTORS® have collaborated to develop and implement solutions providing tax incentives, fee waivers and other innovations to develop more affordable housing opportunities.

Clearly, those of us involved in the process of helping people achieve the American dream of homeownership can and must find more ways to encourage innovation and inspire investment in housing. REALTORS®, particularly, are in a unique position to parlay the need for affordable housing, both in the rental and homeownership sectors of the market, into something tangible, concrete and livable.

The NATIONAL ASSOCIATION OF REALTORS® believes the timing is appropriate to address new and innovative approaches to stimulating homeownership opportunities. Although housing remains strong in our nation's economy and has helped to increase our nation's homeownership rate to a record 68 percent, many deserving American families continue to face obstacles in their quest for the American dream of owning a home.

Consider the following:

- One out of every seven American families – 13 million families – has critical housing needs;
- More than 7.5 million renters nationwide face critical housing needs, either living in substandard properties or paying more than 50 percent of their income towards housing;
- Six million families – nearly half of those with critical housing needs – earn at least some, if not all, of their income from working;
- Most of these people earn less than half of the median income for their area. They don't receive government assistance, and they pay more than half of their income for housing or live in bad conditions;
- In 24 states, a household with two full-time minimum wage earners cannot afford a 2-bedroom apartment without spending more than 30 percent of their income;
- Many who lack decent affordable housing are not what most of us would consider poor. Among those hardest hit are schoolteachers, police officers and municipal workers;
- Our nation's housing shortage is a major contributor of sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford; and,
- Nationwide, the inventory of affordable homes has shrunk to the lowest level in a decade;
- Statistics show that the waiting list for public housing has grown to approximately 1 million households with wait times as long as 10 years in some cities, while the average wait for a rental voucher in some cities is five years;

- Finally, there are approximately 270,000 disabled households on waiting lists for federal housing assistance.

To that end, we offer our support for H.R.1276 The American Dream Downpayment Act as a viable solution to the challenge of increasing homeownership opportunities and we respectfully encourage Congress to consider these additional initiatives to inspire investment in housing, share responsibility for our communities and expand housing opportunities – rental as well as ownership – for all Americans.

Support and Enact H.R.839 Renewing The Dream Tax Credit Act
Although this bill is not under the jurisdiction of the Subcommittee, it is our hope that the Subcommittee will support H.R.839. This legislation provides a substantial tax credit for developers and investors who construct or rehabilitate housing for low- and moderate-income families to purchase. The credit is needed because in lower income distressed and gentrifying urban neighborhoods the cost of building and rehabilitating homes far exceeds the prices at which these homes can be sold to lower income families. In distressed neighborhoods the homeownership credit will fill the gap between development costs and home prices, promoting home purchase and halting further neighborhood deterioration. In gentrifying neighborhoods the credit can provide affordability to existing lower income residents, preventing displacement. And, in rural communities the credit will attract development investment and capacity into these communities.

Amend Section 214 of the National Housing Act to add other states to the list of high cost areas, permitting FHA mortgage limits to be adjusted up to 150 percent of the statutory ceiling
The median price of an existing, single-family detached home in Los Angeles during 2002 was $290,000. In San Francisco that number is $530,900. In the New York Metropolitan area the median home price was $328,000. The current FHA maximum high-cost mortgage insurance limit is $280,749, meaning that for many working families – teachers, police officers, firefighters – FHA is not a useful homeownership tool.

When Congress authorized Section 214 of the National Housing Act, it did so upon finding that higher costs prevailed in Alaska, Guam, Hawaii and the Virgin Islands because it was not feasible to construct dwellings without sacrificing sound standards of construction, design or livability. As a result, the Secretary of HUD was given authority to prescribe a higher maximum for the principal obligation of mortgages insured covering property in these areas. Because of similar circumstances in other communities across the country, we believe it is highly appropriate for Congress to amend the list of areas where the maximum mortgage amount may be adjusted upward.

Provide Reduced Downpayment Requirement for FHA Loans for Teachers and Public Safety Officers
The National Association of REALTORS® is a strong supporter of providing reduced downpayments to teachers and public safety officers because it will make homeownership more affordable for many deserving American families. This proposal will open the prospect of

homeownership to large numbers of public safety employees and educators who now can find little or nothing affordable in the communities where they work.

The ability to afford a home remains the most challenging hurdle for many homebuyers. Under existing FHA rules, a homebuyer generally must be able to contribute at least 3 percent of the cost of the property with his or her own funds. As an example, on a $150,000 house a buyer would need a down payment of $4,500 in cash and would need an additional two percent for closing costs, prepaid expenses, and title insurance totaling approximately $7,500 needed for settlement.

Allowing a one percent down payment requirement would sharply reduce what beneficiaries of the program would need to bring to the settlement table. On a $150,000 property, the down payment for a participant in the program would be $1,500. We believe this change in down payment requirements would allow almost 6,000 teachers and public safety officers to become homeowners who were previously precluded by cost from the homebuying market thereby stimulating affordable homeownership opportunities and strengthening the social fabric of neighborhoods and communities.

Technical Change to the Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION OF REALTORS® strongly supports H.R.1443 The Access to Affordable Mortgages Act that provides a technical change to hybrid FHA adjustable rate mortgages (ARMs). Last year Congress enacted legislation authorizing creation of a hybrid FHA ARM product. However, the legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARMs at one percent. The housing industry maintained that a maximum one percent increase in the interest rate at the time of the first rate adjustment for a 5/1 hybrid ARM does not offer sufficient interest rate flexibility for a lender to offer this type of ARM product at a lower interest rate than a traditional 30-year fixed rate mortgage. As a result, FHA borrowers are not afforded the benefit of a hybrid ARM loan that features a starting interest rate lower than a 30-year fixed rate mortgage. H.R.1443 addresses this technicality, enabling lenders to offer 3/1 hybrid ARMs at lower interest rates and allows more families to qualify for FHA hybrid ARM loans.

In closing, the NATIONAL ASSOCIATION OF REALTORS® appreciates the opportunity to share its viewpoints regarding important legislation before the Subcommittee that promotes the dream of homeownership through downpayment assistance. We applaud the Subcommittee for its leadership and commitment in stimulating housing opportunities nationwide, and we stand ready to work with the Subcommittee in fashioning legislation that helps deserving American families fulfill their housing needs.